WORKERS' COMPENSATION BOARD OF BRITISH COLUMBIA

ANNUAL REPORT 2002

effective change

WorkSafe™

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Our role

The Workers' Compensation Board (WCB) of B.C. is a statutory agency that administers the *Workers Compensation Act* on behalf of the Ministry of Skills Development and Labour. The WCB, funded by insurance premiums paid by registered employers and by return on investments, serves nearly 2 million workers and approximately 172,000 employers in British Columbia.

Our mandate

The *Workers Compensation Act* empowers the WCB to enforce occupational health and safety standards, provide legislated compensation and rehabilitation benefits to injured workers or their dependants, and collect funds from businesses to operate the workers' compensation system.

The WCB is dedicated to:

- Preventing workplace injuries, diseases, and fatalities
- Rehabilitating injured workers and returning them to productive, safe employment
- Providing legislated compensation benefits and fair decision-making for workers suffering from a work-related injury or occupational disease
- Providing sound financial management for a viable workers' compensation system
- Protecting the public interest

Our vision

Workers and workplaces safe and secure from injury and disease.

The WCB is governed by a Board of Directors that is charged with building a sustainable, efficient, and accountable workers' compensation system that is responsive to the public interest and to the workers and employers of British Columbia.

Our principles

The work of the WCB is guided by a number of core principles. As an organization, the WCB endeavours to be:

- Fair
- Accessible
- Responsive
- Driven by service and quality
- Cost effective
- Prudent
- Results-focused
- Proactive
- Evidence-based

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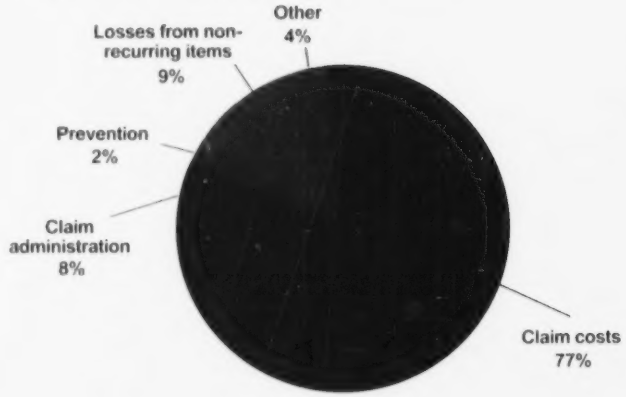
Operational Highlights

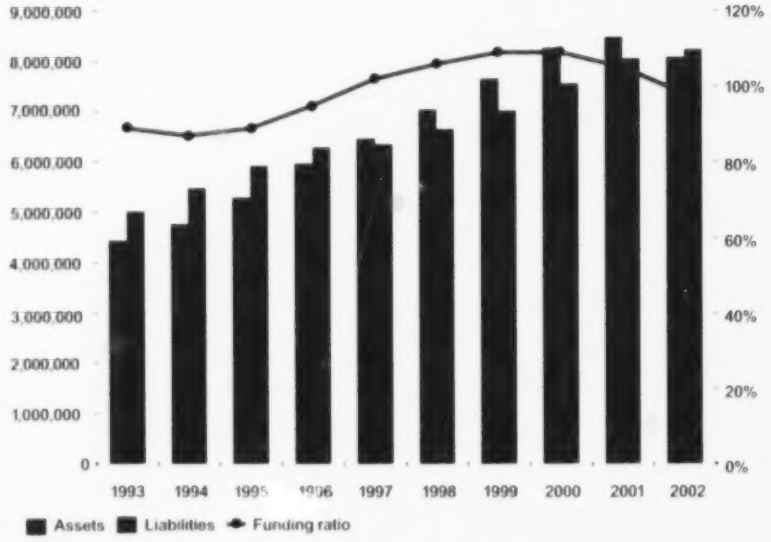
Key financial comparatives

($ millions)	2002	2001
Premium income	$ 1,020	$ 916
Investment income	$ 326	$ 586
Claim costs	$ 1,625	$ 1,649
Operating and prevention costs	$ 125	$ 140
Deficit from normal operations	$ (404)	$ (287)
Losses from non-recurring items	$ (167)	n/a
Total operating deficit	$ (571)	$ (287)
Total assets	$ 8,079	$ 8,467
Total liabilities	$ 8,225	$ 8,043
(Unfunded liability) / Unappropriated balance	$ (407)	$ 134
Investment return of portfolio	-2.8%	7.5%
Percent funded (ratio of assets to liabilities)	98%	105%

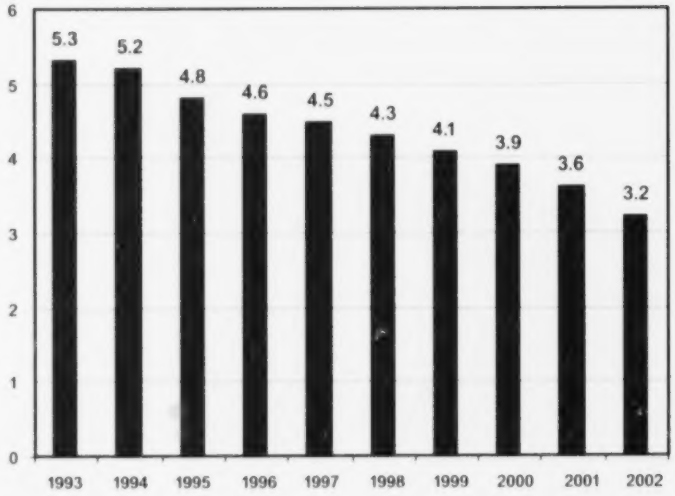
Allocation of expenses



Assets, liabilities, and funding status



Injury rate



Message from the President

"2002 was a year of significant change, perhaps unprecedented in the history of the WCB of B.C."

— Ralph McGinn

Year in review

The year 2002 was full of change, challenges, and achievements for the Workers' Compensation Board of British Columbia. We reorganized our business to enable us to respond to legislative change and to refocus on our core mandates and vision — workers and workplaces safe and secure from injury and disease.

The amendments to the *Workers Compensation Act* in Bills 49 and 63 changed compensation benefits, governance, and the appeal structure. While benefits to injured workers in B.C. continue to be among the best in Canada, the transformation will bring greater certainty, finality, timeliness and consistency to the system. And in the long run, the changes will ensure the financial sustainability of the workers' compensation system.

The system's financial sustainability is a priority. The WCB administration and Board of Directors are committed to the sound financial management of the system for the benefit of workers, employers, and all British Columbians. We are proud of our record. In fact, we enjoyed a long period of exuberant investment returns that enabled us to shield employers from upward cost pressures in recent years. However, those excess levels of returns had to end and are not expected to return in the foreseeable future so rate stability and sustainability of the system is dependent on managing cost pressures and refining how we do business.

In August and September of 2002, the WCB senior executive committee made several difficult announcements regarding the restructuring of the organization. This included the discontinued operation of the WCB Rehabilitation Centre, Print Shop, Laboratory, and First Aid Department. These services will now be procured from the private sector as the WCB focuses on providing its

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core services. We will maintain a quality assurance role to ensure that service to our clients is not diminished as a result of these business process changes.

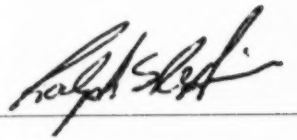
Despite the challenges we faced, there were many achievements in 2002. Through education, consultation, and enforcement, the Prevention Division assisted industry to achieve an 11 percent reduction in the injury rate compared with the previous year. As such, the system avoided $110 million in costs and 6,800 fewer workers suffered a lost time injury. In consultation with employers and workers, the WCB also fostered the creation of two new occupational health and safety (OH&S) agencies and continued to develop the Health and Safety Centre — an Internet resource for OH&S information. In addition, the Division's online searchable Occupational Health and Safety Regulation has become a model for other Canadian jurisdictions.

In 2002, the Rehabilitation and Compensation Services Division implemented quality assurance programs, reduced costs for short-term disability (STD) claims and vocational rehabilitation, reduced STD duration, maintained excellent timeliness for payment of STD claims and disclosure requests, and earned high ratings for service satisfaction from injured workers. And, as a result of amendments to the *Workers Compensation Act* and policy, the Division carried out extensive staff training and stakeholder communication initiatives to ensure a smooth transition to new business processes and broad public understanding of changes that impact injured workers and employers.

The Finance and Information Services Division introduced new Internet services for employers that are accessible 24 hours a day, seven days a week. This includes online registration, clearance, reporting, and premium payment. In 2002, employer premium rates were kept relatively stable compared with other Canadian jurisdictions and the Division created an Employer Services Advisory Committee to enable greater two-way communication with the employers of B.C. This committee meets on a regular basis to review and provide input and suggestions for improvements to assessment services.

Also last year, WCB administration and the Compensation Employees' Union (CEU) concluded a collective bargaining process without a work stoppage. Employees are being assisted through the transition that resulted from the restructuring process.

In conclusion, 2002 was a year of significant change, perhaps unprecedented in the history of the Workers' Compensation Board of British Columbia. I would like to take this opportunity to thank WCB staff and management for their perpetual hard work and professionalism. Their efforts ensured the successful transition to a renewed and improved workers' compensation system.



Ralph McGinn, P. ENG
President and CEO
Workers' Compensation Board of B.C.

Message from the Chair

"The WCB is a provider of a valuable public service."

— Douglas Enns

Effective change

The 2001 Annual Report anticipated a time of change and transition ahead for the Workers' Compensation Board of B.C. In 2002, the WCB experienced significant legislative, structural, and operational change.

Two core services reviews were commissioned by the government and conducted during the year — one on policy and legislation and the other on service delivery. Recommendations in the policy and legislation core services review led to legislative changes to compensation benefits and the appeal structure, making the B.C. system more cost-effective and proactive, aligning it with other Canadian jurisdictions, and better equipping it to remain sustainable over the long term. On March 3, 2003, the former three-level appeal structure was replaced with an internal Review Division and an external independent appeal body called the Workers' Compensation Appeal Tribunal. The new appeal structure is streamlined and will bring greater certainty, consistency, and finality to the system.

Legislation also changed the governance structure of the WCB. The interim Panel of Administrators model, in place since 1995, was replaced with a Board of Directors as of January 2, 2003. The new Board includes a worker representative, an employer representative, an actuary, a health care or rehabilitation professional, and three directors who represent the public interest, including the chair. The composition of the Board of Directors is prescribed in law and will enable a balanced approach to decision-making while maintaining a focus on the best interests of the system as a whole.

On behalf of the Board of Directors, I want to offer our thanks to the outgoing members of the Panel of Administrators — Maureen Nicholls, Bruce Rollick, and Alan Barnard — for their diligence, contribution, and commitment during a year of challenge and change.

As chair of the Board of Directors, I envision a new direction for the Workers' Compensation Board. As we move forward we will continue to deliver on our primary WorkSafe™ mandate — the prevention of workplace injury and disease. We will accomplish this goal in partnership with workers, employers and the broader community who are equally committed to preventing the human and financial costs associated with workplace injury.

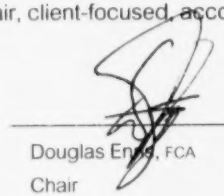
The WCB Board of Directors and administration are also entrusted with ensuring that the agency is accountable, responsive to its stakeholders, and financially viable. There are economic challenges ahead. The largest driver of employer assessments is the injury rate, which is why prevention initiatives are a priority. However, we must also focus on maintaining the integrity and sustainability of the WCB accident fund over the long term.

In 2002, for the first time since 1990, the carrying value of the WCB investment portfolio exceeded the market value. In order to ensure that the WCB's financial situation is accurately portrayed and to uphold the integrity and sustainability of the accident fund, a provision for this reduction in the market value of the portfolio was charged against 2002 operating results. The impact of this provision is fully explained in the Management Discussion and Analysis.

While improvements can and are being made to how we conduct our business and serve our clients, we have many things to be proud of. As we move forward, there are a number of opportunities for the workers' compensation system in B.C. The WCB is a provider of a valuable public service. Our work brings us in direct contact every day with people who have been injured in the workplace, others who have an occupational disease, and with the families of workers who have been killed in the course of their employment. We are committed to providing compassionate and quality service to these workers and their families and to the small and large business owners and employers who, along with workers, are responsible for creating safe and healthy work environments.

I am reminded that B.C.'s workers' compensation system exists today as a result of the "historic compromise," which gave workers the right to compensation and required employers to absorb the costs of the system through regular payments known as premiums. In exchange, employers were granted immunity from lawsuits. The compromise on which the system was based remains valid today. The principles of a no-fault system, collective liability, and fair compensation balance the interests of workers, employers, and the people of British Columbia.

Throughout this report you will read of the many successes and challenges that the WCB has experienced during the past year. The WCB is committed to partnering closely with workplace parties to build on these successes and to proactively address the challenges. The Board of Directors and WCB staff and management will move forward with our vision and mandate to create workplaces that are safe and healthy — and the responsibility of administering a workers' compensation system that is fair, client-focused, accountable, and sustainable.



Douglas Enns, FCA
Chair

2002 at a glance

Advancing the Strategic Plan

The WCB holds itself accountable for meeting its strategic goals and reporting its progress to its stakeholders in an open and accessible manner. To help measure and communicate that progress, the WCB tracks several key performance indicators. These indicators are tied directly to the WCB's strategic plan and are used to measure the WCB's progress against its major corporate goals.

Beyond simply acting as a balanced scorecard, these performance indicators provide direction, promote accountability, promote cross-divisional thinking, and provide an explicit link between objectives and actions.

Although there are several performance measures used within each division at the WCB, the following table shows the main indicators of the WCB's organizational performance as a whole. They reflect the broadest and most fundamental objectives set out in the WCB's strategic plan, and collectively they provide a bird's-eye view of the WCB's operational performance.

2002 highlights at a glance

The following chart provides a quick overview of the WCB's key measures and results for the year 2002. In each measurement category, you'll find the WCB's target goal, actual result achieved, and 2003 target.

Strategic Goal/ Performance Indicator	2002 Target	2002 Actual	2003 Target
For those we serve			
Decrease injury rate (accepted short-term disability (STD) claims per 100 person-years of employment)	3.6	3.2	3.2
Reduce average claim duration Short-term claim duration Vocational rehab income continuity duration Total duration	 48.1 days 1.7 days 49.8 days	 46.8 days 2.4 days 49.2 days	 46.5 days 2.0 days 48.5 days
Improve return-to-work outcomes for vocational rehabilitation clients with permanent functional impairment	82%	81.5%	New measurement categories and targets are being developed for 2003 to reflect policy changes

Strategic Goal/ Performance Indicator	2002 Target	2002 Actual	2003 Target
Improve timeliness of initial STD payment (formerly measured as timeliness of initial claims accepted)	16 days	16.4 days	16 days
Injured worker ratings of service (10-point scale)	8.0	7.6	8.0
Raise public contribution index	65%	69%	70%
In our finances			
Achieve an accident fund, including reserves, in the range of 90 to 110%	99%	98%	95%
Attain an aggregate premium rate between $1.75 and $2.25 (per $100 of rateable payroll)	$2.03 ($1.90 after transition and surplus)	$1.99 ($1.83 after transition and surplus)	$2.06 ($1.92 after transition and surplus)
With our staff			
Improve the work climate every year (5-point scale of employee satisfaction)	No survey during collective bargaining year	n/a	No survey planned for 2003
Reflect the diversity in our community within our workforce	Analysis of results from Phase 2 Employment Systems Review, and planning for implementation	Ongoing analysis of Phase 2 results and planning for implementation	Continued development and refinement of the implementation process

2002 highlights in detail

Decrease the injury rate

The injury rate is the major indicator of overall health and safety in B.C. workplaces. In 2002, the injury rate declined by 11 percent from the previous year to a record-low 3.2 accepted short-term disability claims per 100 person-years of employment. This change exceeded the WCB's performance target of 3.6 and is a continuation of a trend that has seen the injury rate decline year-by-year from 5.7 in 1991, for an overall decline of 44 percent in the past 11 years. Each percentage point of reduction in the injury rate translates to 618 fewer workers experiencing a time loss injury, $10 million in avoided costs, and approximately 30,000 productive days gained to the economy. This performance improvement has been achieved through the combined preventive efforts of workers, employers, unions, industry associations, and WCB staff. The WCB's increased focus on reducing young worker injuries and targeting high-risk firms has also contributed to the reduction in the injury rate. By 2005, the WCB's goal is to work with employers and workers to foster a reduction in the injury rate to 2.9 or less.

Reduce average short-term disability claim duration

This measure represents the average length of time lost and paid for a short-term disability (STD) claim. The longer it takes, the higher the costs to the system. In fact, for every one-day reduction in the average STD claim duration, the WCB saves approximately $6 million in annual costs. In 2002, the WCB aimed to reduce average STD claim duration to 48.1 days, but actually achieved an average of 46.8. Duration has been falling since hitting a high of nearly 55 days in late 1999. This is a result of the WCB's continued focus on improving claim management processes.

Improve return-to-work outcomes for vocational rehabilitation clients with permanent functional impairment

This measure tracks the number of WCB vocational clients with a permanent functional impairment who successfully return to work. In 2002, the WCB had an 81.5 percent success rate, which was just short of the 82 percent target. However, the WCB did manage to create a record number of return-to-work jobs with new employers, despite a slumping economy. Amendments to the *Workers Compensation Act* resulted in new vocational rehabilitation policies, which in turn affected the criteria used to measure performance in this area. The amended policies address the principles and goals of vocational rehabilitation, eligibility criteria, and the nature and extent of programs and services provided. The Rehabilitation and Compensation Services Division will therefore develop new performance measures and set new targets that better reflect the changes.

Improve timeliness of initial short-term disability payment

This is a measure of service to claimants that tracks how quickly the WCB gets first wage-loss payments to injured workers. This measure has remained steady at just above 16 days for the past several years and includes the eight days on average from date of disablement to date of notification to the WCB. In 2002, the WCB averaged 16.4 days, slightly over its target of 16 days. In 2003, the WCB will once again aim to get payments out in 16 days or less.

Raise injured workers' rating of service

In surveys conducted of injured workers in 2002, the average rating of overall service was 7.6 out of 10, which is slightly lower than the WCB's average rating of 7.8 in 2001. The result was largely due to challenges experienced in the fourth quarter while implementing new legislation and policies. Over the past several years the service measure had been rated at or slightly above 7.8. Research indicates that on a 10-point scale, a score of 8 or more is "good to excellent," while a 6 or 7 is considered to be "fair." While there are many aspects of service clients rated as 8 or higher, such as "knowledge of the claims process" and "courteousness," there are areas in need of improvement such as "speed of service" and "availability." In 2003, the WCB is aiming to achieve a rating of 8 out of 10.

Raise public contribution index

The public contribution index tracks how the general public views the WCB and our contribution to the province. The index is measured by Ipsos-Reid, which conducts quarterly surveys of 800 B.C. residents. In 2002, the index exceeded the WCB's target of 65 percent approval rating to reach an all-time high of 69 percent. This is a continuation of a trend that has seen the index rise year after year since 1996. The target for 2003 is 70 percent. This rating compares well with many other private and public sector organizations.

Achieve an accident fund, including reserves, in the range of 90–110 percent

The accident fund represents the aggregate of WCB's invested premiums and the net gains or losses on funds collected to cover the costs related to past injuries and disabilities. In the ideal scenario, the accident fund, including reserves, should exceed the liabilities of the WCB by 10 to 15 percent in order to provide a margin of safety against market downturns or unforeseen cost pressures. In 2002, the accident fund, including reserves, was 98 percent of liabilities after a provision of $549 million was made to reflect market value decline in investments. The slight under-funding is within a manageable range and, barring further financial market declines, should not exert undue pressure on rates.

Attain an aggregate premium rate between $1.75 and $2.25 (per $100 of assessable payroll)

The aggregate premium rate for employers rose modestly in 2002, from $1.78 per $100 of worker assessable payroll to an estimated $1.83 (after transition and surplus). Although there was a slight increase, the estimated aggregate rate is still 20 percent less than 1996, when it reached a high of $2.29. Rising claim costs and declining financial markets were the key drivers putting pressure on employers' premium rates in 2002. In 2003, the WCB is aiming to achieve an aggregate premium rate of $2.06 ($1.92 after transition and surplus), which compares favourably with other Canadian jurisdictions.

Improve the work climate every year

Despite the challenges faced in 2002 with legislative and operational change and a collective bargaining process, WCB employees and management remained committed to our vision and goals of providing service to the workers and employers of British Columbia. This professionalism in the midst of significant transition is a testament to the dedication of everyone who works at the WCB. As we go forward, the WCB will carry on with its focus on maintaining a respectful, ethical, and diverse workforce, and continue to support employee development and training goals.

Reflect the diversity in our community within our workforce

In order to review and address issues surrounding diversity in the workforce, the WCB implemented an Employment Systems Review in 1998. The Employment Systems Review is a three-phase process designed to identify any systemic barriers (illustrated through human resource policies) that unfairly and often unintentionally exclude full participation in the workforce for certain groups of employees. In 2002, WCB staff began analyzing recommendations from Phase 2, which examined policies, practice, and processes in the areas of training and evaluation; hiring, recruitment, and selection; and promotion and mobility between occupational groups. The WCB is developing a strategy to address specific issues and will continue the process in 2003.

Providing legislated compensation benefits and fair decision-making for workers suffering from a work-related injury or occupational disease

WCB Structure

WCB operating divisions

Prevention Division

The Prevention Division is responsible for promoting occupational health and safety practices that protect workers and other persons present in the workplace. The division has two primary goals — to reduce the incidence of injury and disease and to strengthen B.C.'s occupational health and safety performance. These goals are accomplished through education and consultation in partnership with industry, as well as through the enforcement of the Occupational Health and Safety Regulation.

Rehabilitation and Compensation Services Division

The Rehabilitation and Compensation Services Division is responsible for making decisions on benefit entitlements to workers who experience a work-related injury or occupational disease, and for administering the payment of health care benefits. It also determines and administers appropriate vocational rehabilitation services for injured or diseased workers, and helps workers return to work as soon as they are safely able.

Finance and Information Services Division

The Finance and Information Services Division is responsible for assessing and collecting employer premiums and for investing those funds held for the payment of compensation benefits. It is also responsible for the sound financial management of the WCB. Internally, the Division provides financial services and employer information to the operating divisions and all levels of management, and oversees the WCB's information processing and technology initiatives.

Human Resources Division

The mission of the Human Resources Division is to provide WCB staff with valuable and effective human resource products, information, and services that ensure the success of WCB strategies. The Human Resources Division supports this mission by providing leadership and guidance on recruitment, training, benefits, payroll, labour relations, programs, and policies.

Review Division

The Review Division was created in 2002 as a result of amendments to the *Workers Compensation Act* that made significant changes to the workers' compensation appeal process. These changes, which took effect on March 3, 2003, established two levels of appeal for most decisions made by the WCB under the Act. The first level is internal, involving a review by a review officer in the Review Division. The Review Division is structurally independent of the other divisions of the WCB that make decisions under the Act. The second level of appeal is the Workers' Compensation Appeal Tribunal (WCAT).

Divisions reporting to the chair

The Appeal Division, Medical Review Panel, Research Secretariat, and Policy and Regulation Development Bureau are independent of the WCB administration and report directly to the governing body of the WCB. As a result of legislative change in 2002, the Appeal Division ceased to operate on March 2, 2003 and the Medical Review Panel no longer accepts medical review appeals.

WCB appeal structure

In 2002, the WCB appeal structure was composed of the Appeal Division, the Medical Review Panel, and the Workers' Compensation Review Board. The Appeal Division heard appeals on compensation, vocational rehabilitation, prevention, and assessment matters, and the Medical Review Panel dealt only with disputes based on medical issues. Both bodies were independent of the WCB's administration. There was also an external level of appeal, called the Workers' Compensation Review Board, which was the first level of appeal for compensation and rehabilitation decisions made by the WCB and reported to the Ministry of Skills Development and Labour.

As a result of Bill 63, the *Workers Compensation Amendment Act (No.2) 2002*, the Appeal Division and the Workers' Compensation Review Board ceased to operate on March 2, 2003. The Medical Review Panel will be disbanded once its inventory of existing medical review appeals is eliminated. Bill 63 reduced the levels of review and appeal from three to two and created the Review Division and the Workers' Compensation Appeal Tribunal (WCAT). WCAT is independent of the WCB, serves as the final level of appeal of WCB decisions, and reports to the Ministry of Skills Development and Labour.

Appeal Division and Medical Review Panel

In 2002, the Appeal Division issued 3,185 decisions, the largest number of decisions issued in any year since its inception in 1991. This achievement is credited to the hard work and dedication of the Appeal Division staff.

The Medical Review Panel Department saw a 37 percent increase in the number of new applications for examination (699 in 2002 compared with 511 in 2001) and a slight increase in the number of panels held (343) and medical certificates issued (340). The introduction of Bill 63, which closed new appeal access to the Medical Review Panel as of November 30, 2002, was the primary reason for the increased number of new applications.

Medical issues followed historical patterns in 2002 with the majority of appeals involving back conditions, degeneration, and tendinitis. The Medical Review Panel Department confirmed or partially confirmed WCB decisions, Appeal Division decisions, and Review Board findings in 69 percent of the cases.

Policy and Regulation Development Bureau

The Policy and Regulation Development Bureau provides the Board of Directors with advice on policy and regulatory issues. The Bureau researches and prepares policy and occupational health and safety regulation development proposals for the Board of Directors' consideration. These policies and regulations are developed in consultation with external stakeholder groups and the operating divisions of the WCB. The Bureau also liaises with the provincial government and provides briefing materials and other information.

During 2002, the Bureau supported the government's core services review on major law and policy issues by providing briefing notes on a number of requests for information. The Bureau prepared extensive policy amendments as a result of the *Workers Compensation Amendment Act, 2002* (Bill 49) and the *Workers Compensation Amendment Act (No. 2), 2002* (Bill 63). The Bureau developed Volume II of the *Rehabilitation Services and Claims Manual* to reflect policy changes resulting from Bill 49.

In 2002, the Bureau addressed a number of significant policy issues. The Bureau reviewed and revised policies relating to vocational rehabilitation services for injured workers, the employability assessment process, chronic pain, and commutations of permanent partial disability awards. The Bureau prepared a number of briefing notes on critical legislative and policy issues in order to assist in the orientation of the incoming Board of Directors. The Bureau also reformatted the *Assessment Manual* to reflect the new policy format.

Research Secretariat

The Research Secretariat generates new knowledge on occupational health and safety and workers' compensation issues by funding high-quality, scientifically valid research. The Secretariat is also charged with translating that knowledge into relevant, practical solutions for improving workplace health and safety, ensuring fair and equitable compensation, and fostering successful rehabilitation and return to work for injured workers.

In 2002, the Secretariat's second annual research competition resulted in the funding of 11 new research projects, including studies on:

- The prevention of slip and fall accidents
- The long-term impacts of injury on young workers
- The effectiveness of a manual ceiling-lift for home care workers

Funding decisions were based on a rigorous evaluation process that included expert scientific review and a relevance review by the workplace stakeholder-based Research Advisory Committee.

Divisions reporting to the president

Human Resources Division

The negotiation of a three-year collective agreement was concluded without a work stoppage in 2002 with the assistance of a mediator. As part of WCB's organizational restructuring, certain business processes were discontinued and selected area offices and work centres were closed. Transition counselling, workshops, and in some cases relocation support were provided for employees moving within the WCB as a result of the restructuring. The WCB administration worked closely with the Compensation Employees' Union (CEU) to enable efficient and compassionate change management.

The WCB's human resources are its most valuable asset. Organizational goals can only be successfully met through the efforts of an educated, dedicated, and service-focused staff. As an employer, the WCB is committed to equity and maintaining a respectful, ethical, and diverse work environment. The administration will continue to support employee development goals and meet the needs of a modern, knowledge-based organization through staff training and professional development. This will enhance staff and management skills, build leadership and strength, and enable increased business capacity and improved service.

In addition to meeting organizational goals, WCB employees are committed to their communities. Staff members operate a charitable organization called Helping Hands, whose motto is "WCB employees helping others, through deed and donation." In 2002, Helping Hands collected, primarily through payroll deduction, $137,000 for charities throughout British Columbia. Recently Helping Hands was publicly recognized by the Canadian Breast Cancer Foundation for its fundraising efforts.

> **"In order for an organization to be truly successful, it must align its most valuable asset — employees — with the company's goals."**
>
> — ***Vaughan Bowser, Vice-President, Human Resources and Facilities Division***

Review Division

The Review Division was created in 2002 as a result of amendments to the *Workers Compensation Act* that made significant changes to the workers' compensation appeal process and established two levels of appeal for most decisions made by the WCB under the Act. The first level is internal, involving a review by a review officer in the Review Division. The second level of appeal is to the Workers' Compensation Appeal Tribunal (WCAT).

The Review Division is structurally independent of the other divisions of the WCB that make decisions under the Act. The vice-president and chief review officer, who is in charge of the Review Division, reports directly to the president of the WCB. The chief review officer appoints review officers who conduct most of the reviews carried out by the Division. There are three main methods for conducting a review: a paper-based read and review, a read and review with additional inquiries, and a review involving an oral hearing.

"The Review Division will play a key role in the WCB's overall strategy to develop and maintain consistent, predictable, quality decisions through the creation and implementation of a formal quality management framework"

— Louise Logan, Vice-President, Review Division

The Review Division has three main objectives:

- To provide a simplified and flexible process for obtaining, within the WCB, an independent review of a decision under the Act
- To play a key role in the WCB's overall strategy to develop and maintain consistent, predictable, quality decisions through the creation and implementation of a formal quality management framework that includes timely "quality information" loops with the Review Division, the WCB's operating divisions, and senior management
- To provide final resolution to the high volume of disputes with WCB decisions within the required statutory timeframes.

WCB Complaints Office

The WCB Complaints Office (formerly the WCB Ombudsman) provides workers and employers with a neutral mechanism to bring forward issues of alleged unfairness concerning WCB decisions and recommendations, acts done or omitted, procedures, practices, and regulations.

In 2002, the Office opened 1,743 cases, including 265 re-openings — a 13 percent decrease from the previous year. Service delivery improved by six days, reducing the average duration of time to complete a case to 9.85 days in 2002 from 15.86 days in 2001.

Workers made 63 percent of all inquiries and complaints. Employers made 2 percent. Agents, advisers, MLAs, and the provincial Office of the Ombudsman made the remaining 35 percent of all inquiries on behalf of clients. Numerous individual cases involved the payment of wage-loss and vocational rehabilitation benefits, adjustments to employer assessments, discriminatory action complaints, and issues involving communication, disclosure, and appellate decisions.

Special Investigations Branch

Since its inception in June 2000, the Special Investigations Branch has proven to be a valuable tool for limiting the WCB's exposure to fraud, recovering costs, and ensuring the workers' compensation system remains fair and balanced for the workers and employers of B.C. The Branch helps maintain the viability and financial prudence of the system through prevention and enforcement activities.

During 2002, 848 investigations were conducted, of which 544 involved claimants, 225 involved employers, 13 involved WCB internal matters, and 66 were linked to vendors, service providers, or other groups. At year-end, more than 300 cases remained active and two major cases were awaiting charge approval by Crown Counsel.

Preventing workplace injuries, diseases, and fatalities and rehabilitating injured workers and returning them to productive, safe employment

2002 Effective Change

Creation of workplaces that are safe and secure from injury and disease

The WCB's primary goal is the prevention of workplace injury and disease, which is the right thing to do and makes good business sense. The Prevention Division assists employers and workers to achieve this goal by strengthening health and safety performance at workplaces through the development of health and safety associations, special projects with stakeholders, ongoing awareness campaigns, and through enforcement of the Occupational Health and Safety Regulation.

Reducing injuries

The WCB assisted our workplace stakeholders in achieving a decline in the provincial injury rate for the 11th consecutive year. In 2002, a record-low injury rate of 3.2 accepted claims per 100 person-years of employment was achieved — an 11 percent reduction from the 2001 injury rate. Each percentage point reduction in the injury rate means that 618 workers did not experience a time loss injury — and it saves B.C. employers approximately $10 million in costs and keeps approximately 30,000 productive days in the provincial economy.

Targeting high-risk sectors

The Prevention Division has so far identified and worked closely with nine high-risk sectors — construction, forestry, forest products manufacturing, heavy manufacturing, health care, hospitality, transportation, food and beverage manufacturing, and retail.

Focusing field activity where the need is greatest has produced demonstrable results. For example, in heavy manufacturing, even with an increase in employment between September 2001 and September 2002, the injury rate fell by 15 percent. In health care, as employment rose by 6.2 percent, the injury rate fell by 13.7 percent in that time period. Overall among the high-risk sectors, there was an average 9.8 percent reduction in injury claims in those 12 months.

> **"Through increased collaboration with our industry partners — employers and workers — we have seen dramatic improvements in reductions in the injury rate in B.C. And we can do even better. Some people respond cynically when we say we want to put the WCB out of business — but that's *exactly* what we want to do."**
>
> ***— Roberta Ellis, Vice-President, Prevention Division***

Working with focus firms

The Focus Firm Strategy identifies firms that are experiencing higher than average injury rates, and large employers where the volume of injuries is significant. The WCB works with these firms in a structured program of injury reduction. Many of the approximately 370 focus firms are in high-risk sectors.

Workers and employers have taken increased ownership of the Focus Firm Strategy, which is helping it succeed. In previous years the injury rate among focus firms rose, but it fell 13.6 percent in 2002.

Developing industry partnerships

In 2002, the WCB worked with industry partners to develop the Forest Industry Safety Association, the B.C. Road Construction and Maintenance Safety Network, and the Construction Safety Association of B.C. Safety associations are funded through WCB premiums for the industry sector. The WCB will review proposals from any sector that is interested in creating an industry-specific safety association.

Serving small business

The majority of employers registered with the WCB are small businesses. In fact, 90 percent of the 172,000 employers registered with WCB in 2002 had fewer than 20 workers. Collectively, however, they account for 40 percent of all workers across the province, and generate approximately one-third of all short-term disability claims, particularly in general construction, forestry, agriculture, transportation, professional services, and accommodation and food services.

Since 1997, the Prevention Division has worked with small business employers, associations, and groups to help them reduce their injury rate. Expanding the use of the Internet and creating the Small Business Centre has helped the WCB to provide information, tools, and services relevant to these employers to help them continue to improve workplace health and safety and reduce costs. The Prevention Division is successfully using the WCB's web site (www.worksafebc.com) to expand its outreach to all industry sectors, but the convenience of 24-hour, real-time availability of occupational health and safety information and services has been particularly welcomed by small business.

Online Health and Safety Centre

Based on consultations with businesses around B.C. about which services they want to be able to access electronically, the Division launched the Health and Safety Centre, e-news service, and searchable Regulation in 2001. As of October 2002, the Health and Safety Centre web site was recording more than one million hits per month, and the e-news subscriber base had grown to more than 5,000.

Reaching young workers

Improving health and safety among B.C.'s 300,000 young workers, aged 15 to 24, is a priority for the WCB. The young worker injury rate has historically been much higher than that of the provincial injury rate and young males have had more than twice the number of injuries as young females. The Prevention

Division has developed creative ways to reach youth through its Young Worker Strategy — using school events, such as the travelling student play *Joe Who?*, media awareness campaigns, and special events to reinforce health and safety messages. Injured young workers have become actively involved in delivering a prevention message to this target group. The young worker injury rate for 2002 is 3.2 claims per 100 years of employment — a 32 percent reduction from the 1997 injury rate of 4.7.

Reducing musculoskeletal injuries

The Workers' Compensation Board of British Columbia was one of the first jurisdictions in North America to introduce ergonomic regulations to address musculoskeletal injuries (MSIs). Musculoskeletal injuries, which can be caused by repetitive motion or overexertion, make up more than one-third of all worker injuries each year and are among the most complex and contentious claims received by the WCB. Several industries have persistently high rates of MSIs, such as acute and long-term health care and retail grocery. The Prevention Division is focusing its short-term efforts on these industries and developing a long-term strategy to identify and control the risk of MSIs in the workplace.

Health care led all industries in time-loss claims (11.5 percent) in 2002, in no small part because of these MSIs suffered by health care workers who routinely lift or transfer patients. The WCB is working with the Occupational Health and Safety Agency for Healthcare in British Columbia (OHSAH) and regional health authorities on an initiative to install ceiling-lift devices in B.C. health care facilities. The "No-Lift Program" also trains health care workers to use the lift devices properly and report on results.

For all industries in B.C. in 2002, the MSI injury rate fell to 1.03 percent of accepted short-term disability claims per 100 person-years of employment, against a target of 1.21 percent. Between 1996 (when ergonomic regulations were assembled) and 2002, the MSI injury rate has fallen by 34 percent.

Researching occupational disease

Occupational disease prevention was identified as a priority in 2001. A new operational unit has been established to develop an effective disease hazard surveillance system, with particular emphasis on key occupational exposures.

Reducing serious injuries

Safety programs, such as FallSafe for the forestry industry, have helped prevent and reduce workplace injuries, but the WCB and its stakeholders have been less successful at reducing the rate of serious and catastrophic injuries. The Prevention Division plans to create a Serious Injury Prevention Unit in 2003 to address this issue.

Fair compensation and successful rehabilitation and return-to-work of injured workers

The WCB's Rehabilitation and Compensation Services Division's primary responsibility is to make benefit entitlement decisions within law and policy and assist entitled injured workers to return to work in a safe and timely manner.

Compensation and rehabilitation

Amendments to the *Workers Compensation Act* directly affected the work of the Rehabilitation and Compensation Services Division in 2002, by changing the calculation of benefits and the basis for determining partial disability awards, pension entitlement past age 65, inflation adjustment, status of mental stress claims, and CPP disability benefits. With those changes came new systems, policies, processes, and a need for comprehensive staff training. The Division was able to minimize the impact on day-to-day operations by creating a legislative implementation project that oversaw the development and implementation of changes arising from the new legislation. Throughout the year, the Division continued to deliver service to injured workers under the previous statute and establish claims under the new statute without interruption.

"We deliver a complex service to workers and employers. Every day we make difficult claim decisions balancing the injured worker's entitlement to benefits with the employer's requirement to pay for those benefits. At the core of our business is the responsibility to ensure that the right person is provided the right service for the right amount of time."

— David Anderson, Vice-President, Rehabilitation and Compensation Services Division

In 2002, 159,372 claims were first reported. Of those, 6 percent were disallowed and 1.1 percent rejected.

The average duration of claims and the costs of short-term disability (STD), vocational rehabilitation, health care, and long-term disability (LTD) had been rising until the late 1990s. This trend was reversed in 2000 for duration, STD costs, health care, and in 2002 for vocational rehabilitation costs. Health care costs increased between 2001 and 2002 only as a result of an allowance for future costs that will flow from negotiated fee increases for physicians. LTD costs had remained relatively flat in the late 1990s, largely because of a reduced volume of claims being processed. As a result of strategies to process the inventory built in the mid-1990s, the throughput has increased significantly (from a low of 7,178 in 1998 to a high of 12,160 in 2002), reducing the unassigned claims queue. While this improved service to injured workers, it also increased total annual LTD costs.

While STD costs (excluding the impact of legislative changes) declined significantly in 2002 (down $55 million and more than 18 percent), vocational rehabilitation costs increased from nearly $117 million the previous year to $130 million in 2002, solely because of a reallocation of future liabilities from claim administration to vocational rehabilitation. If not for this reallocation, vocational rehabilitation costs would have been $92 million.

Another Compensation Services goal in 2002 was to maintain or reduce the average duration of STD claims from 2001. That goal was exceeded: in 2002, the average STD claim duration was 46.8 days, down from 49.0 days in 2001.

STD claims inventory was reduced again in 2002. In December 2002, the STD claims inventory was 6,834, a 31 percent reduction from the peak of 9,887 in December 1999.

Service delivery

The Rehabilitation and Compensation Services Division continues to focus on improving the timeliness of entitlement decisions. The goal of expedient service must be balanced with quality adjudication and decision-making. In 2002, entitlement decisions remained timely and decisions were made in 16.4 days on average. Compensation Services continued to improve timeliness for claim file disclosures (from 50 working days in 1999 to 16 in 2002), and for health care payments (from 240 working days in 1999 to 45 in 2002).

Progress was also made to improve timeliness for approving disability pension awards and reducing the queue in Disability Awards from a high of 3,000 functional awards in 2001, to 134. Renewed emphasis will be put on complex loss-of-earnings awards during 2003.

Return to work

In 2002, the WCB first paid 61,824 time-loss claims. Of these, 4,375 clients were referred to Vocational Rehabilitation for assistance. The Vocational Rehabilitation Department provides services to injured workers and employers to assist workers' safe and durable return to work, or to provide preventive rehabilitation. The Department made significant strides toward improving client service in 2002 by intervening in the claim process, developing return-to-work plans much earlier, and providing more expedient service to injured workers. The Department also managed to create a record number of new return-to-work jobs with new employers despite a slumping economy that has seen fewer available jobs, particularly in the primary resource sectors. Other highlights included reduced costs (compared with peak levels reached in 2000) and the introduction of the Employment Development and Placement initiative, which provides an online database of employment opportunities for vocational rehabilitation clients and a hiring program for employers.

Like much of the Rehabilitation and Compensation Services Division, Vocational Rehabilitation was affected by legislative changes in 2002. As a result of those changes, new policy was introduced near the end of the year that addressed the principles and goals of vocational rehabilitation, eligibility criteria, and the nature and extent of the programs and services provided. In 2003, the Department will continue to adjust procedures and operations in order to fully implement the changes.

Complex claims

Complex claims typically involve serious injury, are time-consuming, and require a high level of adjudication and clinical oversight in order to bring them to successful resolution. In 2002, a Complex Claims Unit was established to assist workers with complex claim issues. Moving these cases to a specialized group of senior adjudicators will improve service for the mainstream of injured workers, and help bring these complex cases to successful completion.

Access to medical treatment

Medical services like specialist consultations, imaging, and surgery often have lengthy waiting lists in the provincial health care system. The WCB established the Visiting Specialists Clinic in 1999 to improve the timeliness of services to injured workers and shorten the duration of claims. Since its inception, the Clinic has been highly successful, helping to improve recovery and keep employer costs down. For example, the Clinic shortens average wait times for orthopaedic surgery by three months or more per worker. There were 2,197 elective surgeries performed via the Visiting Specialist Clinic in 2002, comprising 82 percent of all WCB elective surgery in the province. This was down 15 percent from 2001 and is reflective of the drop in overall claims coming into the WCB.

Disability management for large firms

In summer 2002, the Rehabilitation and Compensation Services Division piloted an adjudication unit designed to respond to the needs of large B.C. employers who have sophisticated disability management programs. As part of the pilot, employers manage all of their disability claims through a single WCB representative. The objective of the project is to enable large employers to centralize and streamline their approach to disability management, which over the long term means shorter, less costly absences.

Catastrophic injuries

Historically, continuing care for catastrophically injured clients around the province has been the responsibility of the nearest WCB office. But Compensation Services was not satisfied that this approach was providing these clients with the best possible care. Therefore, in 2002 the Special Care Services Unit was created. The Unit has assumed responsibility for all catastrophic cases across the province and, if necessary, will update and/or redesign their care strategy. The WCB local office or clinical staff will provide some of the home services.

Service to injured workers

The WCB wants to ensure injured workers are satisfied with the service they receive. In 2002 the Rehabilitation and Compensation Services Division surveyed more than 11,000 injured workers. On a 10-point scale, a score of 8 or more is "good to excellent," and a 6 or 7 is considered to be "fair." Of those surveyed, the average rating of overall service was 7.6 out of 10, which is slightly lower than the WCB's rating of 7.8 in 2001. The slight decline in overall service in 2002 can be attributed to operational challenges in the fourth quarter due to the implementation of new legislation and policies. During this period, injured workers' ratings of "timeliness of service" and "availability" both declined, affecting the Division's overall service score. However, despite year-end difficulties the survey results indicate that there are many aspects of the Division's overall service with which injured workers are satisfied. These include knowledge of the claim process (8.1), courteousness (8), professionalism (8), respect (7.9), and the WCB also scored well in a new category that asked whether our decision letters were understandable. The Division will continue its service focus with a goal of achieving an overall service rating of 8 out of 10 in 2003.

Quality assurance

In recent years, the Rehabilitation and Compensation Services Division has worked to improve the quality of decision-making and adjudication of claims through training and supervision. It has instituted a claim management oversight process in each WCB service delivery location where managers are now responsible for the quantity and quality of work, adherence to the published claim management standards, and timeliness of decisions and referrals for medical care. Claims older than 85 days are now reassessed and assigned an action plan to address the needs of the client.

Communication

The WCB is committed to improving written correspondence and has set new standards for plain language and clarity, for training, and for auditing the results. The goal is to significantly improve the structure and content of the Division's decision letters and its one-to-one communication with injured workers. From a baseline audit score of 44 out of 100 at the end of 2001, there has been marked improvement in 2002. In September, for example, the audit score reached an all-time high of 78. Further improvements are expected in 2003. The Ipsos Reid client survey for the fourth quarter included new questions regarding letter quality. The results indicate that 92 percent of clients found their decision letters easy to be read and understandable and 88 percent found them to be written in plain language.

Online service

In recent years, the Rehabilitation and Compensation Services Division has developed several self-serve applications for the WCB's web site, www.worksafebc.com. This includes Online Claim Status for workers, who can check adjudication and payment status of their claims; EmployerConnect for employers to file claims online; ProviderConnect for service providers to submit clinical reports and invoices online; and the Employment Development and Placement application for employers to submit job opportunities online.

E-commerce

With an eye to enhancing service and improving operational efficiency, the WCB is increasingly looking to the Internet as a progressive means of conducting business and providing service. Through a growing suite of self-service applications, the WCB is providing clients with a flexible, easy-to-use business tool that is available 24 hours a day, seven days a week.

In 2002, the WCB introduced a record number of new Internet-based services, including online reporting and remitting which employers can use to report payroll, pay premiums, and manage their WCB account online. By using the service, most employers can choose from new payment options, including credit card payments, pre-authorized chequing, and Internet or telephone banking. They can also use the system to pay their premiums in quarterly instalments or pre-pay for the entire year.

Another service introduced for employers was online rate information packages, which provide annual rate information, including employers'

base rates, claim information, and experience rating adjustments from as far back as 2000.

Since introducing online reporting and remitting and online rate information packages, the number of employers who have registered for secured electronic service through WorkSafe Online has tripled to more than 2,500 — and that number continues to grow.

Other successful Internet-based services launched in 2002 include:

Employer self-serve registration — An updated tool that allows the majority of B.C. employers to register for WCB coverage online, while helping them determine their eligibility and appropriate industrial classification and reducing average turnaround time. Approximately 25 percent of all employer registrations are now completed online.

Experience rating calculator — A user-friendly version of the ER2000 Calculator, which employers can use to estimate their experience rating for future years. It also shows employers how premiums can be lowered by reducing claim costs.

Wage rate calculator — Employers and injured workers can use the wage rate calculator to estimate benefits for claims over 10 weeks (the long-term wage rate).

Health Care Provider Centre — A new section of WorkSafe Online designed to help health care practitioners do business with the WCB and better understand our programs, services, and business procedures. The Centre provides a variety of useful resources, including billing and reporting forms that can be downloaded directly from the site.

"E-commerce gives us an extraordinary opportunity for outreach and communication. Our ability to inform stakeholders, communicate with them, explain to them, and connect with them has never been better. It's up to us to reach out and actually do that."

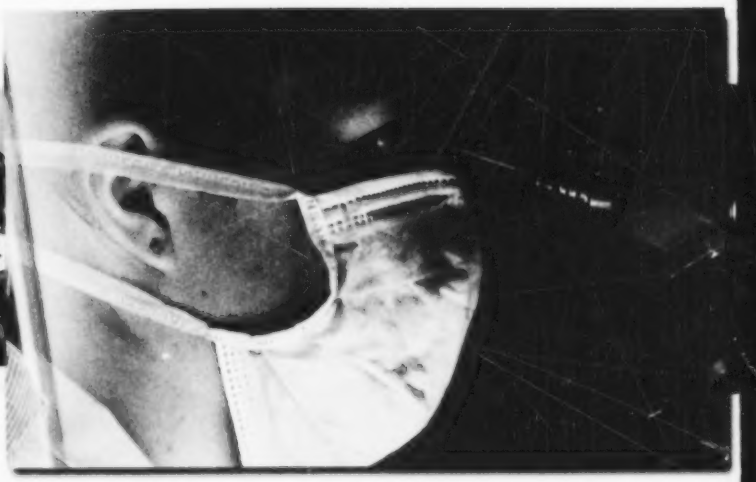
— Sidney Fattedad, Vice-President, Finance and Information Services Division

New additions to the Health and Safety Centre — Accessible through WorkSafe Online, the Health and Safety Centre provides comprehensive prevention information and resources across all industries, with specific information for areas such as construction, health care, and wood products manufacturing. In 2002, three new subsections were added on young worker safety, forestry, and small business.

Health and Safety Centre e-news — Although originally introduced in November 2001, this subscription e-mail service was expanded in 2002 to include a greater variety of industry-specific updates, notice of accidents, general heath and safety information, and news from the WCB. Since its launch, more than 5,000 subscribers have signed up.

These new services are in addition to the WCB's existing group of online tools, which includes applications for requesting clearance letters, checking the status of claims, and reporting incidents and injuries to the WCB.

In 2003, the WCB will continue to develop and implement new electronic service delivery options for workers, employers, health care providers, and the health and safety community. Projects in development include online requests for claim disclosures and online claim cost statements. Over the next three years, the majority of the WCB's business processes will be available through self-service on WorkSafe Online.



Protecting the public interest

Management Discussion and Analysis

Purpose

The purpose of the Management Discussion and Analysis (MD&A) is to present the reader with a view of the operations of the WCB through the eyes of management. The MD&A is intended to provide complementary as well as supplementary information to that contained in the audited financial statements. It includes information that has a forward-looking orientation and will focus on performance relevant to the achievement of long-term strategic goals.

WCB's vision, mission, and core business strategies

Our vision is to have workers and workplaces safe and secure from injury and disease.

Our mission is to assist employers and workers to embrace safe workplaces and practices and to provide income security and safe return to work opportunities for injured workers. The mission comprises obligations defined by statute and value-added objectives that include lower injury rates, service quality, prudent financial management, and cost effectiveness.

> **"Good quality service at a cost that is sustainable — that's what our stakeholders want us to provide. They want us to be prudent, effective, and efficent. They don't want to see us wasting money."**
>
> ***— Sidney Fattedad, Vice-President, Finance and Information Services Division***

In organizing to achieve the vision and mission, the WCB's core business is delivered through the operations of Prevention Services, Rehabilitation and Compensation Services, and Financial Services.

Key financial performance indicators

The WCB's operational strategies are designed to achieve the key mission objectives of safer workplaces, safe return to work, and income security for injured workers. These key mission objectives (and their key performance measurement indicators in brackets) follow.

Statute defined goals

- Annual assessment to fund the system (timely annual rate setting)
- Issuance and enforcement of regulations for workplace safety (timely and contemporary regulations)
- Provision of rehabilitation services and wage-loss benefits to injured workers (in accordance with legislation and policy)

Value-added, service, prudent financial management, and cost-effectiveness goals

- Injury rate reduction (injury rate)
- Optimization of return-to-work outcomes (measured by a quartet of performance indicators — total duration of short-term claims, inventory of long-term claims, timeliness of long-term award decisions, and propensity of short-term claims to convert to long-term disability)
- Reasonably stable injury insurance premium (aggregate assessment rate)
- Investment return compared with benchmark (return on portfolio investments)

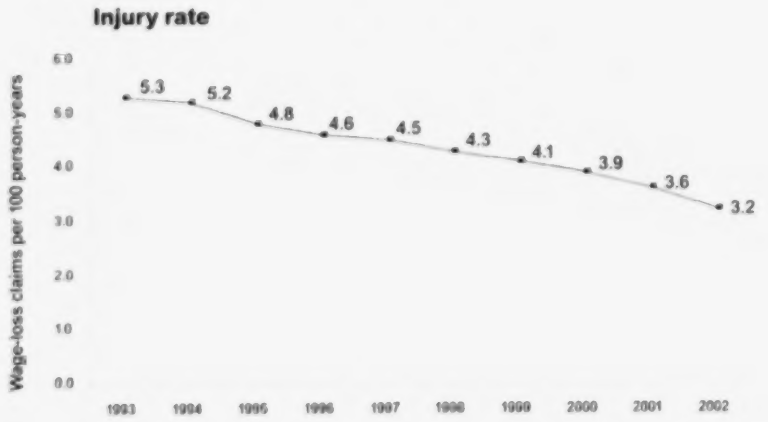
2002 performance against key indicators

On key statutory goals

The WCB met its statutory obligations during the year through timely notice of assessments to the employers of British Columbia, timely development and issuance of workplace safety regulations, and generally timely provision of rehabilitation and payment services to injured workers.

On value-added goals

1. Injury rate



The injury rate is the primary cost driver in the workers' compensation system. Current-year injury costs of $0.9 billion directly reflect the impact of the injuries occurring in the year. A reduction in the injury rate, therefore, has significant bearing on claim costs and assessment rates paid by employers.

The target in the Prevention Services Division's 2002 plan was an injury rate of 3.6 wage-loss claims per 100 person-years worked. The actual injury rate for 2002 was 3.2. Positive results have been achieved through increased focus on injuries in the young worker segment, and through the strategy of targeting high-risk firms under the focus firm initiative.

Prevention Services continues to focus on utilizing strategic information management tools to refine and narrow their focus on industries and employers whose injury profiles are outside norms. In addition, the increasing number of industry self-funded safety and health associations should contribute to further decreases in the injury rate. In 2002, $4.4 million additional levies were collected from specific industry groups to fund those industries' safety associations.

Prevention Services' longer-term injury rate goal is 2.9 by 2005. We have the technological and human resource capacity to continue to succeed in injury prevention.

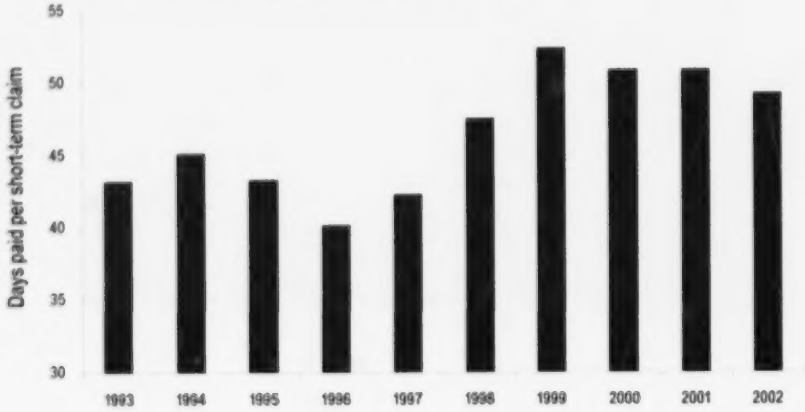
2. Optimization of return-to-work outcomes

The objective of optimizing return-to-work outcomes is difficult to measure since some injured workers return to work after a short convalescence or after having had physical rehabilitation, while others move on to vocational rehabilitation, and some are unable to return to work and therefore convert to long-term disability claims. A series of measures that attempt to encapsulate this continuum are: a) total duration of short-term claims, b) propensity for short-term claims to be referred for long-term disability evaluation, c) inventory of long-term claims, and d) timeliness of long-term award decisions.

a) Total duration of short-term claims

Total duration of short-term claims is a measure of current costs as well as a leading indicator of future costs. The total duration of short-term claims measures the average number of days of wage loss and vocational rehabilitation income continuity paid in the year to claimants for all years of injury.

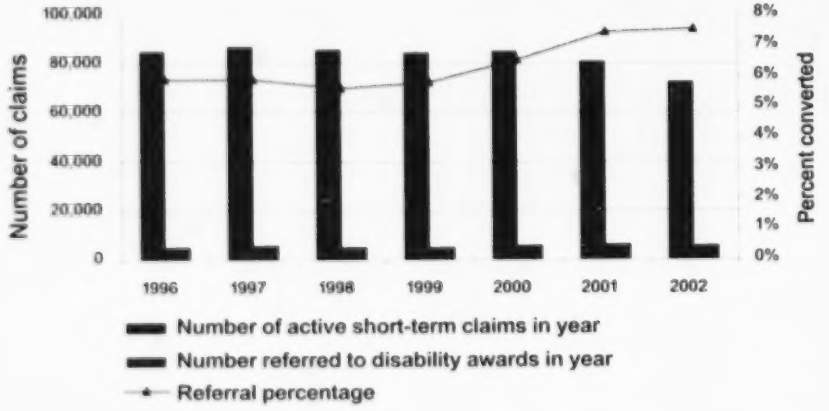
Duration of total short-term claims



As depicted in the 10-year chart above, total duration peaked in 1999 and has since gradually declined. The Compensation Services Division has improved effective management of short-term claim adjudication and return to work through better and more timely identification and measurement techniques that pinpoint off-profile trends to allow timely intervention. The improved capacity to manage duration risk should continue to bring about improvement in duration.

b) Propensity for short-term claims to convert to long-term claims

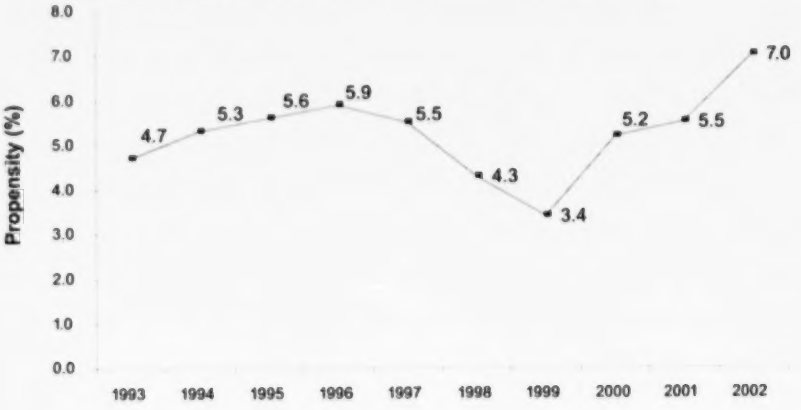
Referrals to evaluation for long-term disability



A large majority of short-term wage-loss claims close as a result of workers returning to work after recovery. Others are referred for evaluation for a permanent disability award due to severity of the injury and/or the claimant's inability to return to work.

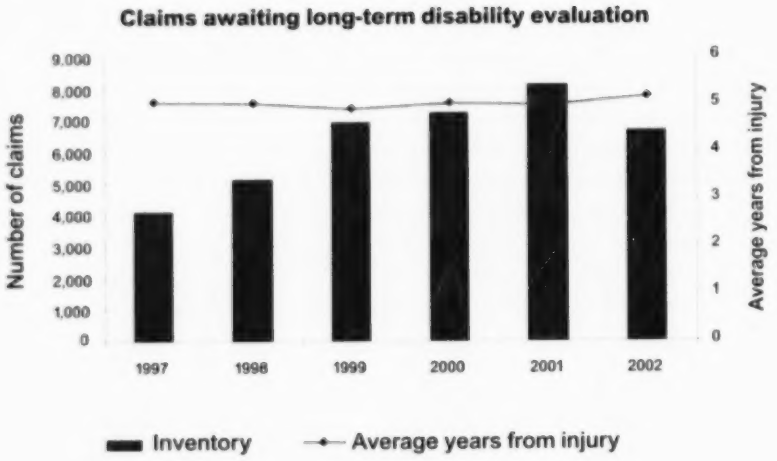
Propensity is a related statistic which, as defined by the Association of Workers' Compensation Boards of Canada, measures the likelihood of previous short-term disability claims becoming long-term disability awards. This statistic had a significant increase of 27 percent from 2001 to 2002, as shown in the graph below.

Propensity (% of STD claims becoming LTD claims)



The increasing trend in both referrals from short-term claims to permanent disability evaluation and propensity reflect many variables including economic conditions affecting return to work, employer accommodation practices, timeliness of adjudication, as well as the age of workers and severity of injuries. These measures are leading indicators of future costs since a certain percentage of these short-term claims will result in long-term and higher-cost awards.

c) Inventory of long-term claims



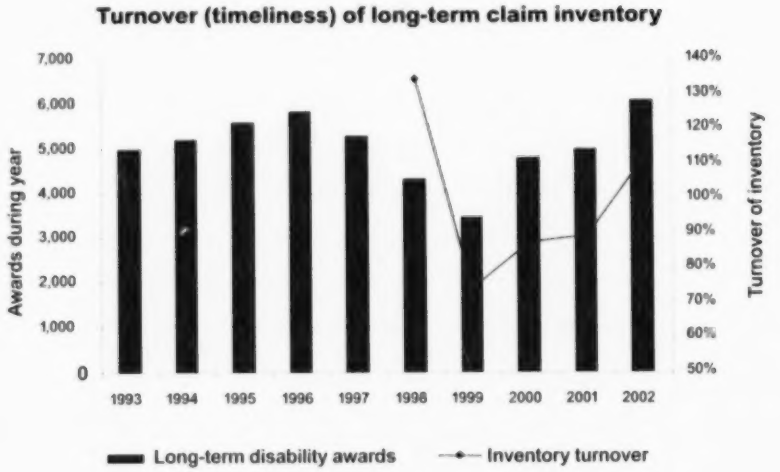
Once short-term claims are moved into the long-term claims inventory, those cases are evaluated for permanent disability or loss of earnings. The inventory of long-term claims awaiting disability evaluation is a critical indicator of future costs because these claims are likely to receive higher awards. Long-term disability awards generally have an average cost that is 14 times that of a short-term disability ($70,000 compared with $5,000 based on a three-year average).

d) Timeliness of long-term disability award decisions

The timeliness of long-term disability award decisions is an important measurement of service. It is expressed as the annual turnover rate of the inventory of long-term claims awaiting a disability award. A turnover rate of 100 percent means that the average waiting time for an award is one year, while a turnover rate of 50 percent means that the average wait is two years.

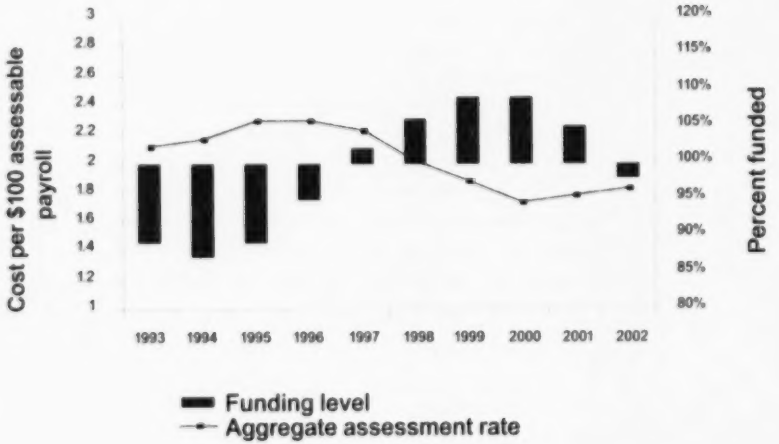
The timeliness and size of awards has an impact on actuarial costs since the valuation of unfinalled claim liabilities is a reflection of the outcome of those decisions. When the turnover rate is low, claim cost experience is not reflected in actuarial valuations on a timely basis.

This is especially problematic if the average size of awards subsequently turns out to be larger than the historical trend.



During the period 1999 to 2001, the inventory of long-term claims awaiting evaluation increased dramatically as a result of a significant rise in the referral rate from short-term disabilities. This caused a bulge to form in the inventory. In 1999, the number of awards declined to the lowest level in 10 years, resulting in a significant drop in the turnover of this inventory. Since 1999 the number of awards has steadily increased to historical normal levels and as a result turnover has also improved. The cost of claims has followed the upward trend as a result of the emergence of cost experience that more closely reflects the outcome of awards. There are risks inherent in the system whereby the number of claims awaiting referral for long-term disability decisions is an unknown factor. Some of these risks lie external to the WCB's operations, such as appeals under consideration at the Review Board and Appeal Division (effective March 3, 2003, the WCB's appellate system was replaced by the Workers' Compensation Appeal Tribunal and the Review Division). In addition, the rate of referrals from short-term disability would need to return to more normal levels if the growth of long-term claims inventory and hence long-term disability costs is to stabilize.

3. Stable assessment rates within sound financial fundamentals



The aggregate assessment rate is an important economic variable for British Columbia's employers and, as such, stability is a desirable feature of that rate. The WCB's aggregate assessment rate has been reasonably stable. Over the past 10-year period, the average aggregate rate has been 2.030 and the standard deviation was 0.202. During this 10-year period, the assessment rate was within 10 percent of the 10-year average six times out of 10.

The table at right provides a comparison of aggregate rates over 10 years for selected provinces. While having the second lowest average rate for that period, British Columbia has had the least rate volatility among the larger Canadian jurisdictions.

Province	10-year average aggregate rate	Standard deviation	Standard deviation as percent of average
British Columbia	2.030	0.202	10%
Alberta	1.556	0.405	26%
Ontario	2.655	0.332	13%
Quebec	2.409	0.299	12%

Source of rate data: Association of Workers' Compensation Boards of Canada

In view of claim cost trends and several years of operating deficits, the WCB's aggregate rate will likely increase modestly in 2004.

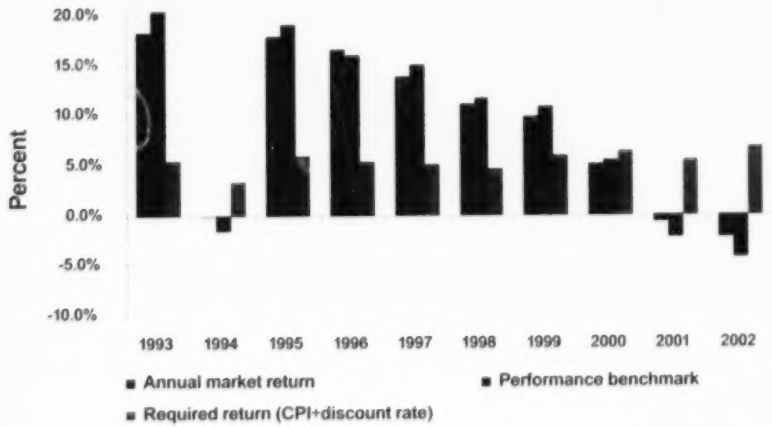
Stable assessment rates cannot be maintained to the detriment of the overall financial strength of the WCB. In this respect, the WCB's funding level during the 10-year period has averaged 99 percent with a low of 87 percent in 1994 and a high of 109 percent in 2000. While the low end of the range in 1994 was not satisfactory, the WCB has since established that its funding level should not drop below 90 percent nor exceed 110 percent.

The twin financial objectives of the WCB are to maintain stable assessment rates and to maintain financial strength within limits that best serve our two constituents, employers and injured workers.

4. Return on investments — market returns

The WCB's primary investment objective is to earn investment returns equal to or greater than the annual consumer price index (CPI) plus 3.5 percent, the discount rate used to value its liabilities. This is referred to as the long-term required rate of return which in 2002 was 6.7 percent (CPI of 3.2 percent plus 3.5 percent). In addition to the required return, the WCB measures its investment management performance against

Market return vs. benchmark and required return



published return benchmarks for its various asset classes. In the chart above, the WCB's actual returns are tracked against the required return and the weighted average benchmark performance for the asset classes in which it invested for each of the 10 years from 1993 to 2002.

The WCB's investment returns have exceeded the required return for six of the past 10 years but did not meet the target for four of those years. In total, however, the total returns exceeded required returns by a substantial margin.

When comparing investment performance against benchmarks, the WCB out-performed the composite market benchmark in four of the 10 years and under-performed in six of those years. Although negative, annual market returns in 2001 and 2002 significantly out-performed the composite market benchmark due to a conservative bias in the WCB's asset allocation strategy that under-weighted equity markets to avoid the implicit risks in market valuations during that period.

Organization capacity and capabilities

In recent years, the WCB has accumulated substantial capacity and capabilities to carry out its mission objectives. During the past five years, the WCB expended significant capital resources to update its operational processes and computer systems in order to improve productivity and business intelligence, and ultimately to bring services closer to the end-user through Internet self-service options. The WCB has sufficient human resources to meet the needs of its operations. In addition, the WCB's efforts to partner with employer and labour stakeholders through health and safety associations have resulted in a fuller, more robust network of safety education that extends the outreach of the prevention message. The growth and success of these organizations are essential to sustain the continued reduction of injuries and diseases in the workplace.

The WCB's financial results

Summary results

$ millions	2002	2001	Inc (Decr) operating result
Normal operations			
Income	$ 1,344	$ 1,502	$ (158)
Expenses	(1,748)	(1,789)	41
Deficit — normal operations	(404)	(287)	(117)
Non-recurring items			
Provision for market value impairment of equity portfolio	(549)	-	(549)
Restructuring and legislative change implementation costs	(32)	-	(32)
Effect of legislative changes	553	-	553
Mortality improvement adjustment	(139)	-	(139)
Non-recurring items	**(167)**	-	**(167)**
Total operating deficit	**$ (571)**	**$ (287)**	**$ (284)**
Fund balance			**Inc (Decr) in fund balance**
At January 1	134	421	(287)
Operating deficit	(571)	(287)	(284)
Cancellation of research reserve	30	-	30
At December 31	**$ (407)**	**$ 134**	**$ (541)**

During 2002 the WCB's financial results were affected by three major and significant items:

1. Legislation was enacted by government that lowered British Columbia's workers' compensation benefit levels. Benefit levels are now in line with those prevalent in the rest of Canada. These changes included changes to indexation of benefits from full indexation to CPI minus 1 percent compounded annually rather than semi-annually. These changes resulted in lower valuation of future benefit liabilities that provided a one-time $553 million cost reduction. Partially offsetting this cost reduction was the upward revaluation of future benefit liabilities to reflect mortality improvement that added $139 million to benefit costs in 2002. The legislative changes are expected to result in future annual net cost reductions of approximately $70 million, mainly due to changes in the post-retirement benefits for permanent disability.
2. The WCB follows generally accepted accounting principles related to the valuation of its investment portfolio. These principles allow the WCB to carry its portfolio at values above or below the market value of the portfolio through a five-year forward-averaging mechanism. In previous years, the WCB has carried its investment portfolio at values lower than markets, meaning that there were "off balance sheet" deferred assets. However, the global equity markets have been in continuous decline and have led to three-year declines in several equity portfolios that, in the judgment of management, have resulted in impairment of these investments. As a result, these losses should not be allowed to be carried forward to future years by way of the forward-averaging mechanism. Management has, therefore, made a provision against this loss in the amount of $549 million in 2002.
3. During the year, the WCB undertook to restructure its operations including the discontinuation of its printing, physical rehabilitation, and first aid certification operations, as well as the downsizing of various operating functions. This restructuring resulted in 615 positions being declared redundant and cost the WCB approximately $28 million in severance arrangements and other business

realignment costs in its 2002 operations. In addition, the WCB incurred $4 million of one-time charges primarily to upgrade its compensation systems and processes to implement the legislative changes.

The WCB's core operations resulted in a deficiency of $404 million in 2002 (2001 — $287 million). Non-recurring charges net of non-recurring credits totalled $167 million. After non-recurring items, the WCB recorded an operating deficiency of $571 million (2001 — $287 million).

During the year, the Panel of Administrators cancelled a $30 million reserve for research and transferred it back to the accident fund balance. As a result of this and the operating deficiency of $571 million, the WCB's unfunded liability was $407 million (2001 — $134 million unappropriated surplus).

Revenues

Core operating revenues declined 10.5 percent from $1,502 million to $1,344 million in 2002. After taking into account a provision for impairment of equity investments, total operating revenues declined $707 million to $795 million or a decrease of 47 percent compared with 2001.

Total employer premiums increased $103 million or 11.2 percent to $1,019 million as employers, whose rates have been transitioning over three years to higher levels due to the rate group restructuring in 2000, paid rates closer to their target rates in 2002. In addition, assessable payroll of employers increased 0.9 percent as the British Columbia economy moved ahead 1.9 percent during the year. The three-year rate transition program ended in 2002 for virtually all transitioning employers. The average assessment rate charged to employers increased 2.8 percent to $1.83 in 2002.

Income from investments during the year was $325 million compared with $586 million in 2001 as equity markets continued a third year of decline. Earned investment income, primarily interest and dividend income, was $294 million compared with $299 million in 2001.

However, income representing the amortization of deferred investment gains was only $31 million in 2002 compared with $287 million in 2001.

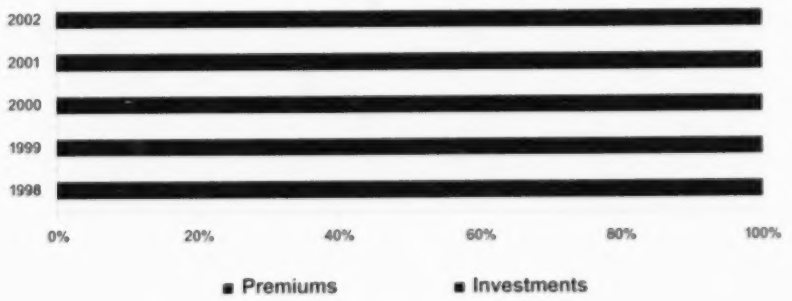
In 2002, a charge of $549 million was made against investment income to provide for impairment of equity investments. In assessing its equity investment portfolios, the WCB has determined it prudent to make this provision for specific portfolios related to equity investments in Active US, Asia, Euro, and International pools. The decision to provide for impairment of these investments is based on conservative application of generally accepted accounting principles.

After recognizing this charge, the net investment income was a negative $224 million compared with investment income of $586 million in 2001. At the end of 2002, the WCB's total portfolio had a market value of $7,556 million. The carrying value of the portfolio was $8,049 million. The provision of $549 million brought the carrying value of the portfolio to $7,500 million, a decrease of $399 million compared with 2001.

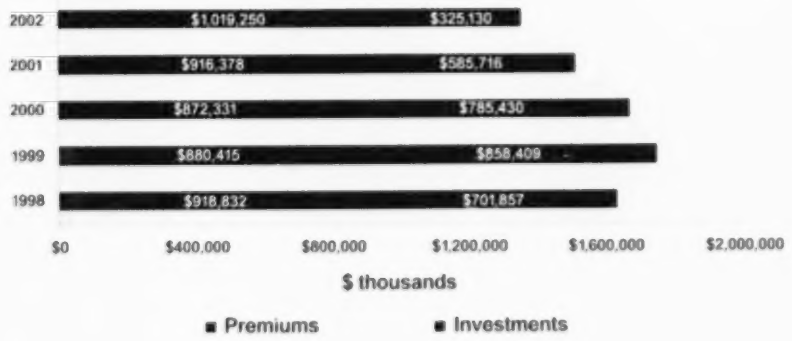
Income from investments provides funds to meet the cost of consumer price indexing on benefit liabilities plus the cost of the discount rate used in setting premiums. In 2002, investment income, excluding the provision for impairment, was 4.1 percent — insufficient to meet the required amount of 6.7 percent. Including the $549 million provision, the 4.1 percent investment income becomes a negative 2.8 percent investment loss. This loss translates to a $757 million shortfall (which is normally referred to as "insufficiency of investment income") in 2002 compared with an "excess investment income" of $157 million in 2001. This is the first time in 10 years that the WCB's investment portfolio has not produced excess investment income.

With lower investment income, the WCB's revenue profile in 2002 was such that employer premiums provided 75 percent of total funding compared with the almost 50/50 share in 1999 and 2000.

Share of total normal revenue (excluding provision for portfolio impairment in 2002)



Total normal revenue (excluding provision for portfolio impairment in 2002)



Expenses

The volume of new time-loss claims declined 10.4 percent due to the drop in the injury rate to 3.2 claims per 100 person-years worked in 2002 (2001 — 3.6). Core claim costs decreased $24 million or 1.5 percent compared with 2001.

Lower volume of new claims was a key improvement as current-year claim costs declined by 5.8 percent or $57 million to $934 million. Consumer price indexing, however, generated costs of $507 million for an increase of $126 million as the Canadian CPI increased from 1.9 percent in 2001 to 3.2 percent in 2002. The cost of claims resulting from actuarial adjustments for prior-period claims to reflect the impact of recent award experience decreased by $93 million or 33.8 percent to $183 million in 2002. As mentioned in the earlier reference to significant accounting policy, the five-year smoothing of benefit liabilities has the effect of ameliorating the effects of more recent changes in claims experience. The recent year's rising cost trend for prior-period claims has slowed in 2002. Should the 2002 trend continue to be flat or move lower in future, it is likely that adjustments for prior-period claims will be even more benign in future.

In 2002, legislative changes were made to lower benefit entitlements in order to align B.C. more closely with other Canadian provinces. However, transition provisions apply the new legislation primarily to new claims from June 2002 forward. This means it may be some time before an appreciable impact on future costs is felt, as many claims that originated prior to June 2002 will continue to be dealt with under the old legislative framework. In addition, changes to the system of appeals took effect in early 2003. All of these changes were intended to make the system more sustainable and to improve services to claimants by streamlining the system of appeals.

Total gross administration expenses (see Note 9 to financial statements) in 2002 increased $23.7 million or 8 percent to $319 million. Included in the 2002 administration costs are one-time charges of $28.2 million for restructuring costs and $3.9 million for legislative implementation and appeals integration project costs. If not for this $32.1 million non-recurring charge, the administration costs for 2002 would have decreased by $8.4 million or 2.9 percent from 2001. Administration costs for prevention and enforcement, claimant services, and corporate services (excluding the $3.9 million legislative implementation cost) decreased by $3.6 million, $3.3 million, and $4.5 million respectively, mainly as a result of the divisions successfully meeting the budget targets directed by the Panel of Administrators in 2002. These decreases have been offset by a $1.3 million increase in the cost of

administering employer services, mainly due to increased amortization of the new suite of operating and accounting systems for employer services and a $1.7 million increase in expenses incurred by the Review Board as additional resources were deployed to deal with growing volumes of appeals.

Gain and loss analysis

The following gain and loss analysis isolates the major components contributing to the operating results in 2001 and 2002. Also shown are the aggregate gain and loss elements for the last five years, which provide a broader perspective of the WCB's recent financial results.

$ millions	2002	2001	Inc (Decr)	5-Year Total 1998 to 2002
a) Premium revenue deficiency over current-year costs	$ (90)	$ (244)	$ 154	$ (963)
b) Investment income greater/(less) than liability requirements	(757)	157	(914)	674
c) Higher actuarial liabilities than previously anticipated	(124)	(300)	176	(545)
d) Extraordinary adjustments to revalue liabilities	400	100	300	573
Deficiency	**$ (571)**	**$ (287)**	**$ (284)**	**$ (261)**

a) Premium coverage improved in 2002 compared with 2001 as surplus credits and transition reductions totalled $78 million in 2002 compared with $106 million in 2001. In 2003 premium adjustments will be further reduced to $67 million and remain stable until the pre-2000 surplus balances are substantially amortized by 2004.

b) Investment income did not meet liability requirements in 2002 for the first time in 20 years. Investment income for 2002 was significantly lower than in prior years due to market value decline of the equity portfolio that turned a cushion of net deferred gains of $29 million at the end of 2001 into a deferred net loss of $574 million at the end of 2002.

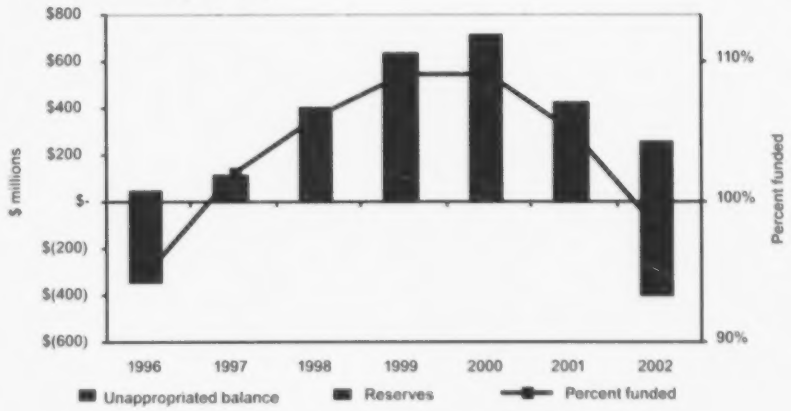
c) Actuarial liabilities for prior years' claims were revised upward in 2002, though to a lesser extent than was done in 2001. This is a reflection of the fact that cost trends appear to be levelling off in 2002.

d) In 2002, legislative changes resulted in a $533 million downward revision of benefit liabilities primarily related to amending automatic full semi-annual CPI indexing of benefits to annual indexing of benefits to CPI minus 1 percent to a maximum of 4 percent. Partially offsetting this was an actuarial adjustment to increase benefit liabilities by $133 million to reflect the increasing life expectancy (mortality improvement) of claimants. The net effect of those changes resulted in the net positive adjustment of $400 million.

Funding status

At the end of 2002, the WCB's unfunded liability was $407 million and reserves were $260 million. The WCB's funding level was 95 percent (2001 — 102 percent) excluding reserves and 98 percent (2001 — 105 percent) including reserves. The reduced funding level is mainly due to a net charge of $167 million resulting from the recognition of some non-recurring items in 2002. These include the $549 provision against equity market value impairment, the $32 million restructuring and legislative changes implementation costs, the $139 million increase in benefit costs as a result of mortality rate assumption changes, and an offsetting credit of $553 million against benefit costs due to legislative changes. This net charge of $167 million is equivalent to a funding-level reduction of 2 percent.

Funding status



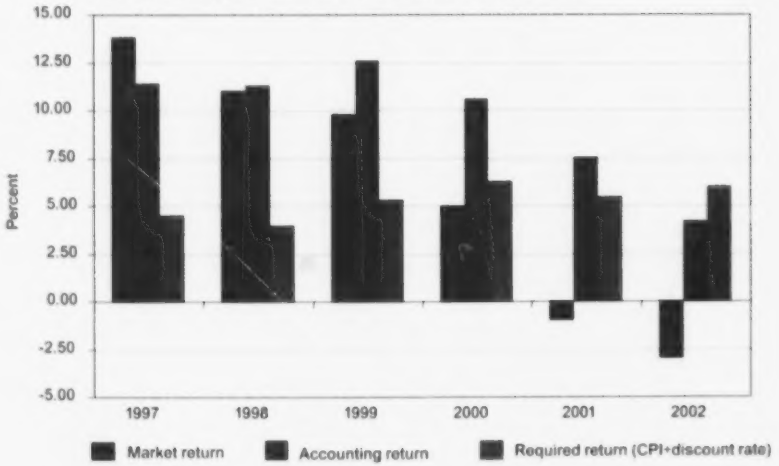
Financial leverage and risk

The WCB's financial performance is highly sensitive to the two dominant components of its balance sheet — the portfolio of investments and the benefit liabilities, both of which are in the $8 billion range. Small fluctuations away from expected performance of either of these two dominant components have significant impact on operating results.

Portfolio of investments — $7,500 million ($7,899 million in 2001)

Compensation benefits are, by legislation, indexed to CPI minus 1 percent (fully indexed prior to January 1, 2002) and fully funded by employers. Full funding means that premiums collected are to be invested to provide cash flow to cover all future principal and inflation payments plus a risk premium that exceeds CPI. As a result, the WCB's liabilities are determined by discounting estimated future payments at a real discount rate of 3.5 percent. Implicit in this discount rate is that the monies collected will earn income at a rate of 3.5 percent above CPI. The WCB's portfolio of investments provides reasonable assurance that, in the long term, the portfolio returns will result in a 3.5 percent real return. However, market volatility such as that experienced in 2000, 2001, and 2002 will impact investment performance in the short term. During the five years ended December 31, 2002, the WCB's portfolio of investments has produced an average annual compound rate of return of 7.7 percent, meaning that $100 invested in 1998 had grown to $145 by the end of 2002. Excluding the $549 million equity market value impairment provision, the WCB's average annual compound rate of return over the last five years is 9.2 percent or an earning of $55 at the end of 2002 for every $100 invested in 1998.

Accounting vs. market vs. required returns



The WCB maintains a relatively conservative and widely diversified investment portfolio that is constructed to provide stable cash flows from interest and dividends to ensure a reliable cash flow stream to service benefit liabilities. In addition and in accordance with generally accepted accounting treatment in the workers' compensation industry, realized and unrealized portfolio gains and losses are deferred and amortized to income over five years. This accounting treatment has provided a smoothing effect on income but (as shown in the above chart) by its nature it also delays and understates the impact of declining market returns. The opposite is true in periods of increasing market

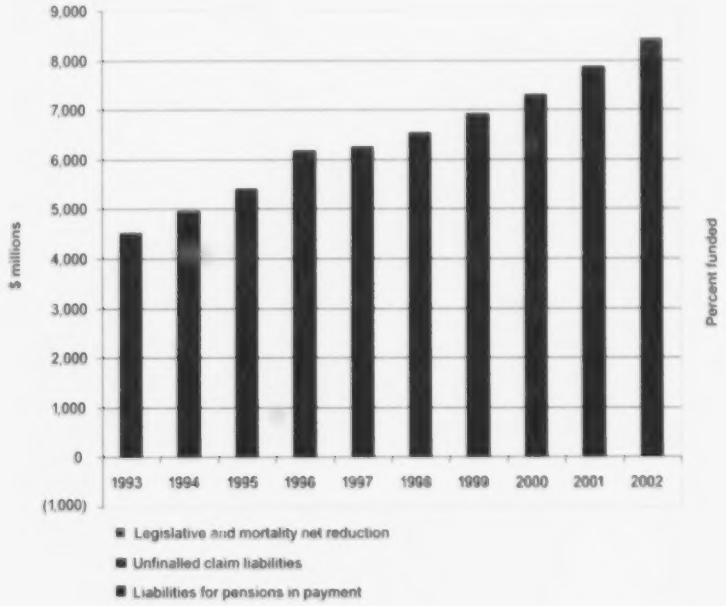
returns. Disclosure of the status and future amortization schedule of deferred gains and losses is found in Note 5 to the financial statements. As mentioned earlier, absent significant improvement in stock markets in 2003 and 2004, investment income will be depressed by the amortization of deferred losses for several years to come.

The leverage effect of reported investment income is significant as each 1 percent variation from expected return is equivalent to approximately $75 million or approximately 5 percent of total operating income.

Benefit liabilities — $8,029 million ($7,870 million in 2001)

The WCB's benefit liabilities are made up of known liabilities for established benefits (pensions) and estimated future liabilities (unfinalled claim liabilities). The following chart illustrates the growth of these two categories and forms the basis for an explanatory discussion.

Benefit liabilities

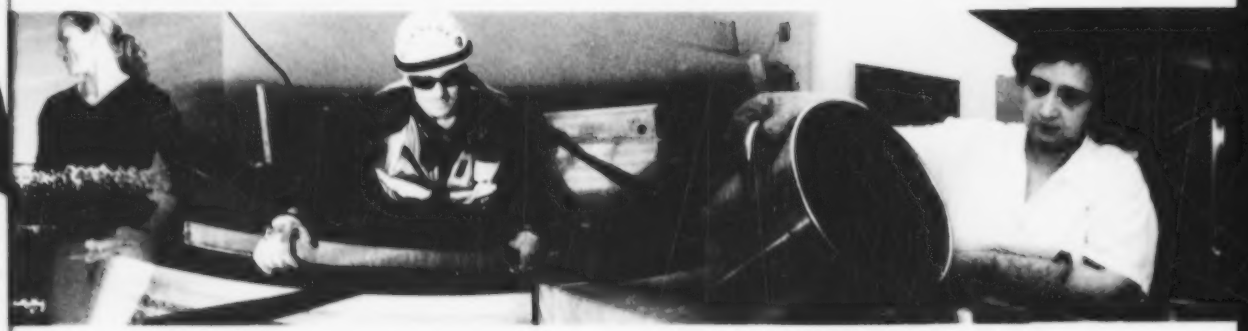


Benefit liabilities quantify the outcome of many factors: volume and severity of injuries, return-to-work rate, propensity to award permanent disability benefits, and the rate of appeals received and upheld. Mainly due to the net credit of $415 million resulting from the legislative and mortality assumption changes, the chart at left shows a modest 2 percent increase in benefit liabilities. Without this one-time credit adjustment, the WCB's total benefit liabilities would have grown at a compound annual rate of 7.2 percent during the past decade. Including the net impact of legislative and mortality adjustments, the compound annual growth rate for pensions was 5.2 percent while the growth rate for unfinalled liabilities was 7.8 percent. The primary reason for the disproportionate increase in unfinalled liabilities is a disproportionate increase in loss-of-earnings awards for old claims that are either readjudicated or appealed and awards substituted for previous awards.

This disparity in growth rate has resulted in an almost doubling of unfinalled claim liabilities whereas pensions in payment are 1.6 times the 1993 value of pensions. The difference between the multiples translates to $900 million in additional unfinalled liabilities.

The WCB's unfinalled claim costs are, therefore, subject to risk in terms of the likelihood of appeals and subsequent resolution of those appeals. At the end of 2002, there were 20,117 appeals pending resolution in the Review Board (2001 — 20,888) and 1,265 appeals pending resolution in the Appeals Division (2001 — 1,314). To the extent that the benefit liabilities are actuarially based on experience, the WCB's financial statements present fairly its financial condition at balance sheet date. However, to the extent that the appeals pending are resolved in a significantly dissimilar similar way to recent experience, risk exists that the WCB's benefit liabilities will require adjustment in future.

In accordance with generally accepted accounting treatment in the workers' compensation industry, actuarial valuation of unfinalled liabilities is based on smoothed average experience (generally five years). Hence the costs recorded in any given year do not reflect the experience of that year alone. Although this accounting treatment produces a smoothing effect on costs, because of its nature it also delays and understates the impact of rising cost trends. The opposite is true in periods of decreasing cost trends. As mentioned earlier in this discussion and analysis, the recent years' rising cost trends appear to have stabilized in 2002 and if this continues to improve, adjustments in future years for prior-period claims may be more benign.



Providing sound financial management for a viable workers' compensation system

Financial Review

Responsibility for Financial Reporting

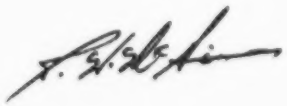
Management of the Workers' Compensation Board is responsible for the preparation of the accompanying financial statements in accordance with generally accepted accounting principles. These financial statements include some amounts based upon management's best estimates and judgments. Any financial information contained elsewhere in the annual report conforms to these financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss.

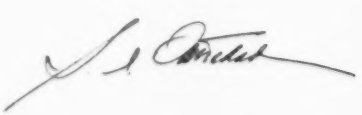
The Internal Audit Department performs audits designed to test the adequacy and consistency of the WCB's internal controls, practices, and procedures.

The Auditor General of British Columbia, the external auditor of the Workers' Compensation Board, has performed an independent audit of the financial statements of the WCB in accordance with generally accepted auditing standards. The Auditor's Report outlines the scope of this independent audit and his opinion on the financial statements of the WCB.

The firm of Eckler Partners Ltd. has been appointed as the independent consulting actuaries to the WCB. Their opinion on the adequacy and appropriateness of the valuation of the WCB's benefit liabilities is presented as a part of these financial statements.



Ralph W. McGinn, P. ENG.
President and Chief Executive Officer



Sidney O. Fattedad, FCGA
Vice-President, Finance/Information Services
Chief Financial Officer

March 10, 2003

Report of the Auditor General of British Columbia

To the Board of Directors of the Workers' Compensation Board, and

To the Minister of Skills Development and Labour, Province of British Columbia:

I have audited the balance sheet of the *Workers' Compensation Board* as at December 31, 2002 and the statements of operations and unappropriated balance and cash flows for the year then ended. These financial statements are the responsibility of the Workers' Compensation Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Workers' Compensation Board* as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
March 10, 2003

Balance Sheet
As at December 31, 2002 ($ thousands)

Exhibit 1

	2002	2001
Assets		
Receivables (Note 4)	427,728	405,547
Portfolio investments (Note 5)	7,499,966	7,899,120
Capital assets (Note 6)	150,906	162,037
	8,078,600	**8,466,704**
Liabilities, reserves, and unappropriated balance		
Payables and accruals	195,854	172,253
Benefit liabilities (Notes 7 and 15)	8,029,458	7,870,287
Total liabilities	8,225,312	8,042,540
Reserves (Note 10)	260,000	290,000
(Unfunded liability) / Unappropriated balance (Exhibit 2)	(406,712)	134,164
	8,078,600	**8,466,704**

The accompanying notes are an integral part of the financial statements.

Ralph W. McGinn, P. ENG.
President and Chief Executive Officer

Sidney O. Fattedad, FCGA
Vice-President, Finance/Information Services
Chief Financial Officer

Statement of Operations and Unappropriated Balance
For the Year Ended December 31, 2002 ($ thousands)

Exhibit 2

	2002	2001
Income		
Premiums (Note 11)		
Rateable employers	945,882	828,409
Self-insured employers	68,927	81,026
Levy for injury-reduction initiatives	4,441	6,943
	1,019,250	**916,378**
Investments (Note 5)		
Earned income	294,421	298,812
Amortization of investment gains	30,709	286,904
Provision for market value impairment of equity portfolio	(548,928)	-
	(223,798)	**585,716**
Total income	**795,452**	**1,502,094**
Expenses		
Claim costs (Note 8)		
Short-term disability	253,019	308,329
Long-term disability	738,273	742,605
Survivor benefits	85,885	69,463
Health care	237,623	221,349
Vocational rehabilitation	130,490	117,330
Claim administration	178,985	189,618
Legislative changes	(553,271)	-
Mortality assumption changes	138,597	-
	1,209,601	**1,648,694**
Operating costs (Note 9)		
Administration costs	252,827	253,922
Amortization of capital assets	29,150	33,977
Funding for injury-reduction initiatives	4,441	6,943
	286,418	294,842
Restructuring costs	28,224	-
Legislative change implementation costs	3,910	-
	318,552	294,842
Less: Claim administration costs	161,825	154,637
	156,727	**140,205**
Total expenses	**1,366,328**	**1,788,899**
Deficit from operations	**(570,876)**	**(286,805)**
Unappropriated balance — January 1	134,164	420,969
Transfer from Research Reserve (Notes 2(d) and 9)	30,000	-
(Unfunded Liability) / Unappropriated balance — December 31 (Exhibit 1)	**(406,712)**	**134,164**

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows
For the Year Ended December 31, 2002 ($ thousands)

Exhibit 3

	2002	2001
Cash flow from operating activities		
Cash received from:		
Employers	986,640	834,031
Dividends and interest	261,468	283,129
	1,248,108	1,117,160
Cash paid to:		
Claimants or third parties on behalf of claimants	888,607	932,353
Employees and vendors for goods and services	256,150	247,233
	1,144,757	1,179,586
Cash from / (used in) operating activities	103,351	(62,426)
Cash flow from investing activities:		
Net sale of fixed-term investments	54,751	271,049
Net (purchase) of equity investments	(142,322)	(172,997)
Net (purchase) of capital assets	(17,240)	(27,480)
Cash (used in) / from investing activities	(104,811)	70,572
Net (decrease) / increase in cash and cash equivalents	(1,460)	8,146
Cash and cash equivalents — January 1	(15,893)	(24,039)
Cash and cash equivalents — December 31	**(17,353)**	**(15,893)**

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements
For the Year Ended December 31, 2002

Note 1 — Nature of Operations

The Workers' Compensation Board (WCB) administers the *Workers Compensation Act*, enacted by the British Columbia Legislature in 1917. The Act was amended by Bill 49, the *Workers Compensation Amendment Act*, which received Royal Assent and was passed by the Legislative Assembly of the Province of British Columbia on June 21, 2002. Notes 3 and 7 describe the effects of this legislative amendment on the financial results of the WCB.

The primary functions of the WCB under the Act are promotion of occupational health and safety; compensation for occupational injury, death, or disease; rehabilitation of injured workers; collection of the funds necessary for its operations from employers covered under the Act; and management of portfolio investments in compliance with the *Financial Administration Act*.

Premium rates are established at a level to recover from established classes of employers' current and future costs for claims and operations arising from current claims, subject to a capping policy to moderate excessive changes in rates from year to year. The WCB may also levy a special premium when it is considered appropriate.

The WCB does not receive government funding or other assistance. The funding strategy of the WCB is to be fully funded, with any balances in the unfunded liability or unappropriated balance to be amortized on a five-year averaging basis, through adjustments to future premium rates.

Note 2 — Significant Accounting Policies

(a) Portfolio Investments

Fixed-term investments, having terms greater than one year, consisting primarily of bonds of the Government of Canada, various provinces, and Crown corporations, as well as fixed-term mortgage and global bonds, are stated at amortized cost. Gains and losses realized on disposal of fixed-term investments are deferred and amortized on a straight-line basis over a five-year period.

Fixed-term investments, having terms less than or equal to one year and consisting primarily of treasury bills and other money market instruments, are stated at amortized cost. Gains and losses realized on disposal of these investments are recognized in the year of disposition.

Equity and real estate investments are stated at fair value. The amount by which fair value differs from cost represents an unrealized gain or loss. Unrealized gains and losses occurring during the year, together with gains and losses realized on disposal of equities and real estate investments during the year, are deferred and amortized on a straight-line basis over a five-year period.

Investments denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Forward foreign exchange contracts are stated at fair value. The foreign currency exchange gains and losses for these investments are recorded in the same manner as other investment gains and losses.

The fair value of investments is market value. The market value of publicly traded investments is based on quoted prices while that of privately held debt, equity and real estate investments is based on discounted cash flow or independent appraisals. The market value of forward foreign exchange contracts is determined by the net unrealized gains or losses, as well as premiums paid or received. The WCB regularly assesses the carrying value of its investment portfolios against market value. When it is deemed that an investment portfolio has suffered a loss in value that is other than a temporary decline, then a provision for market value impairment is included in investment income to adjust the carrying value of the portfolio to its estimated realizable value.

Note 2 — continued

(b) Capital Assets

Capital assets are reported at cost and are depreciated on a straight-line basis over their estimated useful lives.

The rates used are as follows:

Buildings	20 to 40 years
Equipment	3 to 10 years
Furniture	10 years
Vehicles	5 years
Operating systems	7 years

Operating systems represent the direct costs incurred in developing new systems that are deferred and amortized on a straight-line basis from the date of implementation.

(c) Benefit Liabilities

The WCB determines its liabilities at the end of each year for all injuries that have taken place to that time.

The WCB appoints a consulting actuary who examines the benefit liabilities and the underlying assumptions and methods, and issues a report thereon to the WCB. The opinion of the consulting actuary is appended to these financial statements.

The benefit liabilities represent the actuarial present value of all future benefit payments expected to be made for claims that occurred in the current fiscal year or in any prior year. The benefit liabilities include provision for all benefits provided by current legislation, policies, and/or administrative practices in respect of existing claims.

They consist of capitalized values for pension awards already made, plus a provision for unfinalled claims (i.e., for future payments on claims that have not been finalized to date). The benefit liabilities have been discounted to present value, using an underlying real interest rate of 3.5 percent, adjusted to 4.5 percent for those benefits that were affected by 2002 legislative changes and inflation adjustments. Since 2000, benefit liabilities include the estimated future expense of administering existing claims.

As in prior years, the benefit liabilities make no provision for future claims related to long-latency occupational diseases, because the determination of such claims cannot be reasonably estimated. However, a $200 million reserve was established in prior years to mitigate future claims relating to such diseases.

(d) Reserves

The $40 million Accident Fund Special Reserves established pursuant to Section 39 of the *Workers Compensation Act* are:

- Contingent Reserve (Section 39(1)(b)), which provides a reserve in aid of industries or classes which may become depleted or extinguished.
- Disaster Reserve (Section 39(1)(d)), which provides a reserve to meet the loss arising from a disaster or other circumstances that the WCB considers unfair burdens to the employers in a particular class.
- Enhancement Reserve (Section 39(1)(e)), which provides a reserve for payment of that portion of a disability enhanced by reason of a pre-existing disease, condition, or disability.

Claims deemed by the WCB to be covered by these reserves are charged to current operations but are prorated to the various employer classes rather than being charged directly to any specific class.

In 1997, the WCB established a $30 million Accident Fund Research Reserve pursuant to Section 111(2)(h) of the *Workers Compensation Act* for the purpose of funding initiatives in scientific study, as well as disseminating and applying ways to reduce occupational injury, disease, impairment, or disability. Investment income earned on the reserve was directed to funding research. In 2002, the Panel of Administrators passed a resolution eliminating the Accident Fund Research Reserve. In its place, the Panel has agreed to set aside a fixed allocation towards the funding of research and knowledge transfer activities.

Note 2 — continued

The WCB established a $200 million Latent Occupational Disease Reserve relating to certain occupational diseases that may have occurred in the current or prior years but may not be reported or recognized for a number of years due to the extended latency periods of such diseases. A $20 million Earthquake Disaster Reserve was also established to provide for claims from workers that may be injured in their course of employment during an earthquake disaster.

(e) Premium Income and Accrued Premiums Receivable

As a significant portion of premium income for the year is not received until after the year-end, the amount shown is an estimate based on statistical data. The difference between the estimate and the actual income received is credited or charged to income in the following year. Historically, the difference has not been material.

(f) Self-insured Employers

Certain employers are self-insured. These employers are billed on a monthly basis for payments of short-term disability, health care, vocational rehabilitation, and for the capitalized values of long-term disability and survivor benefits, together with their proportionate share of administrative costs.

The receivable in Note 4 represents a provision for future claim costs of self-insured classes, for which the final settlement has not been determined; it also includes unpaid current billings.

The WCB also acts as the agent of the Government of Canada for the payment of compensation to federal employees in British Columbia. Amounts paid are recovered from the Government of Canada on a monthly basis.

Note 3 — Legislative Amendments and Changes in Actuarial Assumptions

(a) Legislative Amendments

Bill 49, the *Workers Compensation Amendment Act*, amended the *Workers Compensation Act*, introducing a number of changes to workers' compensation benefits effective June 30, 2002, as well as establishing a new governance structure for the WCB. Specifically, Bill 49 establishes a new method for calculating benefits using 90 percent of average net earnings, alters the method of calculating inflation adjustments, provides for a lump-sum retirement benefit based on defined contributions, integrates a 50 percent Canada Pension Plan disability benefit adjustment for long-term disability benefits, and clarifies the extent of coverage for mental stress. These changes resulted in a lower valuation of future benefit liabilities, mainly related to the inflation adjustment, resulting in a one-time decrease in claim costs of $553 million in 2002. These changes will also result in annual net reductions of claim costs in future years of approximately $70 million, mainly due to the changes in post-retirement benefits for permanent disability.

(b) Changes in Actuarial Assumptions

In 2002, the WCB revised its mortality assumptions to reflect the continuing longer life spans of claimants. The last significant mortality adjustment was made in 1993. The effect of this change is to increase the claim costs expense by $139 million in 2002.

(c) Summary of Legislative Amendments and Changes in Actuarial Assumptions

Below is a summary of the impact on benefit liabilities and claim costs of Bill 49 and changes in mortality assumptions in 2002 (figures are in $,000's):

	Short-term Disability	Long-term Disability	Survivor Benefits	Health Care	Vocational Rehabilitation	Claim Administration	Total
Legislative amendments	5,506	(574,410)	3,228	-	12,405	-	**(553,271)**
Mortality adjustment	-	132,222	6,375	-	-	-	**138,597**
Total	**5,506**	**(442,188)**	**9,603**	**-**	**12,405**	**-**	**(414,674)**

Note 4 — Receivables ($ thousands)

	2002	2001
Premiums	14,617	28,823
Accrued premiums	179,591	165,922
Self-insured employers — receivable	206,178	188,255
Premiums receivable	400,386	383,000
Self-insured employers — deposits	(15,527)	(14,805)
Accrued benefit asset (Note 13)	36,967	31,656
Other receivables	5,902	5,696
	427,728	**405,547**

Note 5 — Portfolio Investments ($ thousands)

	2002	2001
(a) Portfolio investments		
Fixed-term investments, over one year, amortized cost		
Government of Canada and federal Crown corporations	1,004,537	1,308,385
Other Canadian provinces and agencies	677,086	650,948
Corporate bonds	442,505	399,859
Long bonds	464,193	431,699
Real return bonds	390,668	369,174
Global bonds	345,159	274,158
Fixed-term mortgages	146,448	131,892
(market value: 2002 — 3,551,902; 2001 — 3,555,046)	3,470,596	3,566,115
Accrued interest	25,988	25,032
Equities, market value		
Canadian Index Fund	517,355	706,297
Active Canadian Equities	741,508	819,423
U.S. Index Fund	274,674	355,228
Active U.S. Equities	445,880	581,127
International Equities	1,078,034	1,170,121
	3,057,451	3,632,196

Note 5 — continued

	2002	2001
Real estate, market value	479,325	442,449
Foreign exchange forward contract	(9,464)	(3,295)
Private placement pool, market value	112,745	83,399
Canadian fixed-term investments, under one year, amortized cost	355,439	198,304
Bank indebtedness	(17,353)	(15,893)
	7,474,727	7,928,307
Deferred investment losses / (gains)	574,167	(29,187)
Portfolio investment — carrying value	8,048,894	7,899,120
Provision for market value impairment of equity portfolio	(548,928)	-
	7,499,966	**7,899,120**

(b) Deferred investment losses / (gains)

Balance — January 1	(29,187)	(681,879)
Realized net gains for the year	(99,777)	(101,929)
Unrealized net losses for the year	672,422	467,717
	543,458	(316,091)
Amortization	30,709	286,904
Balance — December 31	**574,167**	**(29,187)**

(c) Investment income

Earned for the year	294,421	298,812
Amortization of investment gains	30,709	286,904
Provision for market value impairment of equity portfolio	(548,928)	-
	(223,798)	**585,716**

The market values of the WCB's investment in the Active U.S., Asia, Euro, and International equity pooled funds have been declining continuously since 1999; the market values at the end of 2002 for Active U.S., Asia, Euro, and International equities are about 29 percent, 51 percent, 38 percent, and 35 percent lower than their values at the end of 1999, respectively. Given the continued uncertainty regarding the ability of the equity market to recover and guided by the principle of conservatism, the WCB has recognized in 2002 a $549 million provision for market value impairment of its equity portfolio.

Note 5 — continued

(d) Amortization schedule of deferred investment (gains) / losses

	2001	2002	2003	2004	2005	2006
Balance — January 1	(681,879)	(29,187)	574,167	509,077	302,216	114,529
Add:						
Current year's losses	365,788	572,645	-	-	-	-
	(316,091)	543,458	574,167	509,077	302,216	114,529
Less:						
Amortization of beginning balance	360,061	145,238	49,439	(92,333)	(73,158)	-
Amortization of current year's realized gains	20,386	19,955	19,955	19,955	19,955	19,955
Amortization of current year's unrealized (losses)	(93,543)	(134,484)	(134,484)	(134,484)	(134,484)	(134,484)
Total amortization credited / (charged) to income	286,904	30,709	(65,090)	(206,861)	(187,687)	(114,529)
Balance — December 31	**(29,187)**	**574,167**	**509,077**	**302,216**	**114,529**	**-**

The impact of the provision for market value impairment of equity portfolio on future investment income is shown in the table below:

	2001	2002	2003	2004	2005	2006
Increase / (decrease) to investment income	-	(548,928)	142,297	205,575	125,764	75,292

Investment Risk Management

The WCB currently invests directly in fixed income instruments, and indirectly, through the use of pooled funds managed by the British Columbia Investment Management Corporation (bcIMC), in publicly traded equities, real estate, mortgages and private placements. It also earns additional income by participating in securities lending arrangements, through bcIMC, whereby securities are loaned to and secured by borrowers and approved by the custodian, RBC Global Services. As of December 31, 2002, secured loans amounted to $73,726 (2001 — $174,982).

Credit Risk Management

Credit risk on financial instruments arises from the possibility that a counter-party to an instrument fails to meet its obligations. Therefore, government issuers of debt instruments must have a credit rating of at least BBB, and non-government issuers, as well as other counter-parties, must all have a credit rating of at least A in order to be eligible for consideration by the WCB as an investment. Policy guidelines have been established to ensure that the credit ratings of fixed-income instruments do not fall below predetermined levels.

Foreign Exchange Risk Management

The WCB has investments denominated in foreign currencies, which are exposed to currency risk. To mitigate this risk, the WCB entered into forward foreign exchange contracts, which represent commitments to exchange two currencies at a specified future date based on a rate agreed to by both parties at the inception of the contract, for the sole purpose of hedging foreign currency transactions. The notional amount of forward foreign exchange contracts amounted to $1,356,736 at December 31, 2002 (2001 — $259,427). Their related replacement value at December 31, 2002 was ($9,463) (2001 — ($3,458)).

Interest Rate Risk Management

Fluctuations in interest rates can impact the market value of the fixed-income portfolio, as well as shift investor preferences among asset classes. Interest rate risk is minimized by managing the duration of the fixed income portfolio within predetermined prudent policy limits. Summarized below is the remaining term to maturity of the WCB's outstanding fixed-term investments.

Note 5 — continued

	Remaining Term to Maturity					
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total 2002	Total 2001
Government bonds[1]						
Carrying value	71,000	901,506	533,012	521,264	**2,026,782**	**2,233,491**
Fair value	71,000	934,010	554,773	540,569	**2,100,352**	**2,273,170**
Corporate bonds						
Carrying value	-	361,943	64,025	16,537	**442,505**	**399,859**
Fair value	-	377,294	67,260	17,173	**461,727**	**413,862**
Long bonds						
Carrying value	-	-	-	464,193	**464,193**	**431,699**
Fair value	-	-	-	427,362	**427,362**	**378,782**
Real return bonds						
Carrying value	-	-	-	390,668	**390,668**	**369,174**
Fair value	-	-	-	412,007	**412,007**	**356,172**
Fixed-term mortgage						
Carrying value	18,183	81,100	45,477	1,688	**146,448**	**131,892**
Fair value	18,014	83,242	47,542	1,656	**150,454**	**133,060**
Total						
Carrying value	89,183	1,344,549	642,514	1,394,350	**3,470,596**	**3,566,115**
Fair value	89,014	1,394,546	669,575	1,398,767	**3,551,902**	**3,555,046**

[1] Government bonds include globals and supra-nationals.

The average yield reflects the yield to maturity, which is the discount rate that makes the present value of future cash flows of each fixed-term investment equal to its carrying value. The average yield of these fixed-term investments, excluding real return bonds, as at December 31, 2002 is 5.2 percent (2001 — 5.6 percent).

Real Estate Risk Management

Risk in the real estate portfolio is managed through diversification across real estate types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across residential, commercial, industrial, and development markets.

Note 6 — Capital Assets ($ thousands)

	2002				2001
	Cost	Depreciation	Accumulated Depreciation	Net Book Value	Net Book Value
Land	7,314	-	-	7,314	7,314
Buildings	76,255	1,921	34,817	41,438	43,126
Furniture, equipment, and vehicles	86,261	6,886	68,684	17,577	20,408
Operating systems	151,497	20,343	66,920	84,577	91,189
	321,327	**29,150**	**170,421**	**150,906**	**162,037**

Note 7 — Benefit Liabilities ($ thousands)

	2002							2001
	Short-term Disability	Long-term Disability	Survivor Benefits	Health Care	Vocational Rehabilitation	Claim Administration	Total	Total
Balance — January 1	397,870	4,966,249	789,680	1,004,055	276,837	435,596	7,870,287	7,308,582
Add claim costs:								
Current year's injuries	246,105	264,080	29,110	177,458	75,672	141,263	933,688	990,697
Prior years' injuries	6,914	474,193	56,775	60,165	54,818	37,722	690,587	657,996
Legislative and mortality assumption changes	5,506	(442,188)	9,603	-	12,405	-	(414,674)	-
	258,525	296,085	95,488	237,623	142,895	178,985	1,209,601	1,648,693
Less claim payments made								
Current year's injuries	126,460	697	1,488	56,425	11,470	63,733	260,273	284,003
Prior years' injuries	132,984	311,585	56,294	123,402	67,800	98,092	790,157	802,985
	259,444	312,282	57,782	179,827	79,270	161,825	1,050,430	1,086,988
Balance — December 31	396,951	4,950,052	827,386	1,061,851	340,462	452,756	8,029,458	7,870,287
Represented by:								
Provision for unfinalled claims	391,445	2,402,009	52,222	1,061,851	328,057	452,756	4,688,340	4,402,115
Pension awards, capitalized values	-	2,990,231	765,561	-	-	-	3,755,792	3,468,172
Legislative and mortality assumption changes	5,506	(442,188)	9,603	-	12,405	-	(414,674)	-
	396,951	**4,950,052**	**827,386**	**1,061,851**	**340,462**	**452,756**	**8,029,458**	**7,870,287**

Note 7 — continued

The following is a reconciliation of the claim benefit liabilities:

	2002	2001
Balance at the beginning of year	7,870,287	7,308,582
Add:		
Provision for current year injuries	673,415	706,694
Interest cost	507,445	381,365
Prior years' claim cost experience higher than expected	183,142	276,631
	1,364,002	1,364,690
Deduct:		
Payments for prior years' injuries	790,157	802,985
Changes to legislation and actuarial assumption	414,674	-
	1,204,831	802,985
Balance at end of year	**8,029,458**	**7,870,287**

Note 8 — Changes in Actuarial Valuations of Benefit Liabilities ($ thousands)

	2002			2001		
	Claim Costs	*Less:* Benefit Payments	Changes in Actuarial Valuations of Benefit Liabilities	Claim Costs	*Less:* Benefit Payments	Changes in Actuarial Valuations of Benefit Liabilities
Short-term disability	258,525	259,444	(919)	308,329	305,749	2,580
Long-term disability	296,085	312,282	(16,197)	742,604	292,131	450,473
Survivor benefits	95,488	57,782	37,706	69,463	57,239	12,224
Health care	237,623	179,827	57,796	221,349	187,530	33,819
Vocational rehabilitation	142,895	79,270	63,625	117,330	89,702	27,628
Balance before claim administration	1,030,616	888,605	142,011	1,459,075	932,351	526,724
Claim administration	178,985	161,825	17,160	189,618	154,637	34,981
	1,209,601	**1,050,430**	**159,171**	**1,648,693**	**1,086,988**	**561,705**

Note 9 — Operating Costs ($ thousands)

	2002						2001
	Prevention	Claimant Services	Employer Services	Corporate Services	Appeals, Review Board, and Advisers	Total	Total
Salaries and employee benefits	31,238	91,553	11,649	48,502	4,172	**187,114**	**188,702**
Amortization of capital assets and PC leases	1,835	8,896	9,034	13,491	104	**33,360**	**37,151**
Review board and advisers	-	-	-	-	19,777	**19,777**	**18,736**
Office expenses and communication	1,323	4,236	1,073	11,897	97	**18,626**	**21,131**
Consulting fees	823	1,180	252	4,803	426	**7,484**	**7,864**
Sessional doctor fees	-	6,031	-	-	-	**6,031**	**5,043**
Building expenses	44	1,493	14	8,143	43	**9,737**	**10,042**
Travel and vehicle expenses	2,475	1,497	139	635	30	**4,776**	**5,317**
Injury-reduction initiatives	4,151	129	161	-	-	**4,441**	**6,942**
Other administration expenses	1,678	10,984	423	13,500	31	**26,616**	**27,535**
Cost recoveries	(3,149)	(18,340)	(53)	(9,920)	(82)	**(31,544)**	**(33,621)**
	40,418	107,659	22,692	91,051	24,598	**286,418**	**294,842**
Restructuring costs	-	-	-	28,224	-	**28,224**	**-**
Legislative change implementation costs	-	-	-	3,910	-	**3,910**	**-**
	40,418	107,659	22,692	123,185	24,598	**318,552**	**294,842**
Less:							
Claim administration costs	-	102,419	-	41,933	17,473	**161,825**	**154,637**
	40,418	**5,240**	**22,692**	**81,252**	**7,125**	**156,727**	**140,205**

During the year, the WCB incurred costs to restructure and realign its various operations in order to achieve the 2003 administration budget reduction that its Panel of Administrators directed. These costs consist mainly of severance arrangements for approximately 615 employees, irrevocable lease commitments relating to ceased operations and other sundry costs associated with the realignment of remaining operations. Restructuring costs of $22.9 million are included in Accounts Payable. In addition, the WCB incurred a $3.9 million one-time cost, primarily to upgrade its compensation systems and processes to implement the legislative changes.

Pursuant to Section 111 of the *Workers Compensation Act*, the WCB provides assistance, including monetary funding to industry groups for injury-reduction initiatives. Included in the 2002 operating costs are injury-reduction initiatives that are directly funded by industry groups through an additional levy in their premium rates. An amount equivalent to the additional levy that was charged to industry groups that are benefited by these initiatives is also recognized in premium income (Note 11). Prior to 2002, the cost of funding these injury-reduction initiatives was netted against premium income. The operating costs and premium income for 2001 have been restated to correspond with the 2002 disclosure format.

Note 10 — Reserves ($ thousands)

	2002				2001
	Contingent	Disaster	Enhancement	Total	Total
(a) Special reserve costs					
Short-term disability	-	-	26,133	26,133	32,744
Long-term disability	-	-	60,760	60,760	58,376
Survivor benefits	-	-	990	990	725
Health care	-	-	12,517	12,517	13,692
Vocational rehabilitation	-	-	13,834	13,834	15,237
	-	-	**114,234**	**114,234**	**120,774**

The special reserve balance at December 31 is represented by:	2002	2001
Contingent	2,500	2,500
Disaster	16,500	16,500
Enhancement	21,000	21,000
Balance — December 31	40,000	40,000
(b) Accident Fund Research Reserve		30,000
(c) Latent Occupational Disease Reserve	200,000	200,000
(d) Earthquake Disaster Reserve	20,000	20,000
	260,000	**290,000**

Note 11 — Premiums ($ thousands)

	2002	2001
Rateable classes	1,087,289	993,681
Abatement of pre-2000 subclass surplus	(61,933)	(65,570)
Interest on pre-2000 subclass surplus	(1,420)	(24,531)
Levy for injury-reduction initiatives	4,441	6,943
Capping of rate changes and amortization of balance		
Capping of rate changes	(42,953)	(26,944)
Amortization of balance	(39,532)	(54,265)
	(82,485)	(81,209)
Rateable classes — net	945,892	829,314
Self-insured employers	68,927	81,026
Penalties	4,431	6,038
	1,019,250	**916,378**

Note 11 — continued

Since the WCB implemented its new classification and experience rating systems in 2000, employers in former subclasses with a surplus at December 31, 1999 (total of $431 million) have had their surpluses abated back to them through the rate-setting process generally over a five-year period commencing in 2000. The total amount abated to employers in 2002 is $62 million relating to the subclass surpluses ($66 million in 2001), plus $1 million in interest earned on the subclass surpluses ($25 million in 2001). The interest was calculated based at the rate of investment return that was applied to the rate group balances. Because the investment return was negative in 2002, the interest on pre-2000 subclass surplus balance was set to $0. Employers in subclasses with a deficit at December 31, 1999 (total of $298 million) will have those deficits relieved and funded at the aggregate level by the application of excess investment income; if not enough excess investment income is earned, the remaining deficit is to be paid by raising the premium rates for all rateable employers.

The capping of rate changes represents the effect of the WCB's policy to limit changes to the rates of any rate group from year to year. Beginning in 2000, the capping included a special relief in the premium rates of employers whose premiums increased by a substantial amount during the transition to the new classification and experience rating systems. The shortfall in funding created by the transition plan is funded at the aggregate level by the application of excess investment income. In case the excess investment income is insufficient, the shortfall will then be funded by raising the aggregate base rate of all employers and independent operators. In 2002, the transition cost is $3 million ($33 million in 2001).

The amortization of the balance represents the effect of the planned amortization of the projected surplus or deficit of each rate group at the beginning of each appropriate year.

Note 12 — Gain and Loss Analysis ($ thousands)

The following is a reconciliation of the variances from the actuarial assumptions for the rateable classes (rounded to the nearest $1 million).

	2002	2001
Unappropriated balance — January 1	134,000	421,000
Current year's excess (deficiency) — rateable classes		
Current year's claim and operating costs		
Estimated	1,088,000	1,033,000
Actual	(1,040,000)	(1,077,000)
	48,000	(44,000)
Premium income adjustments		
Abatement and interest on pre-2000 subclass surplus	(63,000)	(90,000)
Amortization of balance	(40,000)	(54,000)
Capping of premium rate changes	(43,000)	(27,000)
Prior years' adjustments and miscellaneous	8,000	(29,000)
	(138,000)	(200,000)

Note 12 — continued

	2002	2001
Changes in legislation and actuarial assumptions		
Impact of legislative changes	533,000	-
Changes in mortality rate assumptions	(133,000)	-
	400,000	-
Prior years' experience gain (loss)		
Short-term disability	19,000	(1,000)
Long-term disability	(141,000)	(217,000)
Survivor benefits	(5,000)	(3,000)
Health care	5,000	24,000
Vocational rehabilitation	(37,000)	(33,000)
Claim administration	(11,000)	(26,000)
Miscellaneous items	46,000	56,000
	(124,000)	(200,000)
Investment income (deficiency) / excess, with respect to		
Consumer price index plus underlying real interest assumption (2002 — 3.5%; 2001 — 3.5%)	(757,000)	157,000
Transfer from research reserve	30,000	-
(Unfunded liability) / unappropriated balance — December 31	**(407,000)**	**134,000**

Note 13 — Employee Benefit Plans

The WCB has several employee benefit plans which provide pension and other post-employment benefits to its employees.

The WCB and its employees contribute to the Workers' Compensation Board Superannuation Plan, a defined benefit plan. The plan provides pensions based on length of service and best five-year average earnings. For funding purposes, and to determine the contribution rate, the plan requires an actuarial valuation of the plan's liabilities at intervals of not more than three years. The last valuation was carried out as at March 31, 2000. In addition, the WCB also has an unfunded obligation relating to basic medical and extended health care post-retirement benefits that it provides to eligible WCB retirees; WCB employees are not required to contribute toward these health care benefits.

The cost of these retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, compensation level increases, retirement ages of employees, and expected health care costs. Pension plan assets are recognized at fair value and its expected return is also based on the fair value of its assets. The March 31, 2000 funding valuation results were used to derive the projected liabilities at year-end.

Note 13 — continued

The significant actuarial assumptions adopted in valuing the WCB's benefit plan expenses are as follows:

	Pension Plan		Other Benefit Plans	
	2002	**2001**	**2002**	**2001**
Discount rate	6.5%	7.0%	6.5%	7.0%
Expected long-term rate of return on plan assets	6.5%	7.0%	n/a	n/a
Rate of compensation increase / health care cost increase	4.0%	4.5%	5.5%	6.0%
Average remaining service period of active employees expected to receive benefits under the pension plan (years)	11 years	11 years	11 years	11 years

Aggregated information about the WCB's employee benefit plans is summarized below:

	Pension Plan		Other Benefit Plans	
	2002	**2001**	**2002**	**2001**
Accrued benefit obligation — December 31	536,745	482,187	64,061	39,393
Fair value of plan assets — December 31	566,887	599,098	-	-
Funded status — plan surplus (deficit) — December 31	**30,142**	**116,911**	**(64,061)**	**(39,393)**
Unamortized net actuarial (gain) loss — December 31	113,534	34,793	18,090	(1,115)
Unamortized transitional (asset) — December 31	(106,709)	(120,048)	n/a	n/a
Accrued benefit asset (liability) — December 31	**36,967**	**31,656**	**(45,971)**	**(40,508)**
Amortization of net actuarial (gain) loss	0	0	0	0
Amortization of transitional (asset) obligation	(13,339)	(13,339)	n/a	n/a
Employee contributions	6,122	5,779	n/a	n/a
Employer contributions	1,811	720	n/a	n/a
Net benefit plan (income) expense	(3,500)	(7,115)	6,344	5,140

The accrued benefit asset relating to the WCB's pension plan is included in its accounts receivable, while the accrued benefit liability relating to its other employee benefit plans is included in its accounts payable.

Because of the significant surplus that existed previously, the required employee contributions to the basic account were reduced by 50 percent of the regular amount since 1998 for a period of five years; the employer's contribution was set to equal the employees' contribution until 2000 but was reduced to zero in 2001 and 2002.

Note 14 — Related Party Transactions

The WCB is required to reimburse the Government of British Columbia for the operating costs of the Workers' Compensation Review Board, the Workers' Advisers Office, and the Employers' Advisers Office.

During 2002, the *Criminal Injury Compensation Act* was repealed and the *Crime Victim Assistance Act* came into existence, an act that the WCB does not administer. The Government of British Columbia reimburses the WCB only for operating costs incurred in the administration of the *Criminal Injury Compensation Act*.

In addition to the legislated obligations referred to earlier, included in these financial statements are amounts resulting from routine operating transactions conducted at prevailing market prices with various British Columbia government-controlled ministries, agencies, and Crown corporations to which the WCB may be considered related.

Account balances resulting from these transactions are included in the financial statements and are settled on normal trade terms.

Note 15 — Self-insured Employers ($ thousands)

	2002	2001
Current premium income	68,927	81,026
Claim costs:		
Short-term disability	16,258	20,404
Long-term disability	12,602	31,014
Survivor benefits	2,691	3,607
Health care	10,908	10,421
Vocational rehabilitation	5,420	3,966
Claim administration	7,446	8,219
	55,325	**77,631**
Share of special reserves costs	4,326	4,457
Operating costs	6,834	6,250
	66,485	**88,338**
Share of investment loss / (income)	2,442	(7,312)
	68,927	**81,026**

Included in the benefit liabilities is $191 million (2001 — $178 million) for self-insured employers (except for the Federal Government). An equivalent amount is included in receivables because these liabilities will be paid by those employers in future years, hence they do not affect the WCB's unfunded liability.

Note 16 — Lease Commitments ($ thousands)

The WCB has several operating leases relating to computer equipment and office spaces. The future lease payments expected to be charged against operating costs over the next five years are as follows:

2003	6,721
2004	5,882
2005	5,406
2006	5,128
2007	5,066
	28,203

Note 17 — Comparative Figures

Certain 2001 figures have been reclassified to conform with the current year's presentation.

Actuary's Opinion

The liabilities included herein have been computed by the Board in accordance with methods and assumptions approved by us. We have made such tests of the calculations as were deemed necessary. We have also examined the data upon which the calculations were based and found it to be sufficient and reliable for our purposes and consistent with the Board's financial statements.

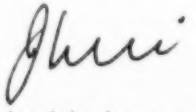
The 2002 liabilities shown below reflect the following differences from the 2001 calculations: (i) legislative changes in the method of calculating inflation adjustments to benefits, in the calculation of average net earnings, the introduction of lump sum benefits at retirement, and partial integration of long-term disability benefits with Canada Pension Plan disability benefits, and (ii) a revision to the mortality tables to reflect continuing improvements in mortality. The net effect of these changes is to reduce the 2002 liabilities by $414.7 million. A more detailed breakdown of these changes is given in Note 3 to the financial statements.

The liabilities under Pension Awards, Capitalized Values are for pensions in payment, and include the effect of cost-of-living increases granted effective January 1, 2003. In last year's calculations, a net interest rate of 3.5% was used in discounting the liabilities. This rate implicitly provided for the future indexing of pensions on the assumption that investment earnings on Board assets would exceed increases in the Consumer Price Index (CPI) by 3.5% per year, over the long term. With future indexing of most benefits now at CPI minus 1%, the net interest rate used to discount long-term disability pensions was increased by 1%, to 4.5% (the 3.5% net rate was continued in valuing survivor benefits as these remain fully indexed to inflation).

The Provision for Unfinalled Claims represents the liabilities for future claims costs in respect of injuries which occurred during 2002 and prior years, including future pensions other than those already in payment, and future claims administration expenses. It is based on projections of future claims payments and awards using ratios developed from the Board's claims experience, average benefit rates, the net interest rates above and, where applicable, the mortality and other assumptions used for computing pension liabilities. The methods used in calculating these liabilities were substantially the same as those employed in the previous valuation as at December 31, 2001.

In our opinion, the assumptions made are appropriate, the methods employed are consistent with sound actuarial principles, this valuation conforms with accepted actuarial practice, and the resulting amounts set out below make reasonable provision, as at December 31, 2002, for the future benefits expenditures of the Board in respect of injuries to December 31, 2002.

($,000s)	**Pension Awards, Capitalized Values**	**Provision for Unfinalled Claims**	**Total**
Benefit Liabilities:			
Short-term Disability	–	396,951	396,951
Long-term Disability	2,721,135	2,228,917	4,950,052
Survivor Benefits	771,465	55,921	827,386
Health Care	–	1,061,851	1,061,851
Rehabilitation	–	340,462	340,462
Claims Administration	–	452,756	452,756
	3,492,600	**4,536,858**	**8,029,458**



Jacob Levi, F.S.A., F.C.I.A.
Eckler Partners Ltd.
Consulting Actuaries

March 10, 2003

Ten-year Summary of Financial Statements

Unaudited

Balance Sheet
As at December 31 ($ thousands)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Assets										
Receivables	427,728	405,547	407,531	369,830	404,165	448,336	462,460	446,918	403,694	349,384
Portfolio investments	7,499,966	7,899,120	7,686,438	7,108,502	6,505,445	5,907,252	5,408,592	4,757,109	4,272,205	3,992,148
Capital assets	150,906	162,037	170,501	167,365	136,019	110,142	96,024	93,542	92,619	94,831
	8,078,600	**8,466,704**	**8,264,470**	**7,645,697**	**7,045,629**	**6,465,730**	**5,967,076**	**5,297,569**	**4,768,518**	**4,436,363**
Liabilities and net fund surplus (deficiency)										
Payables and accruals	195,854	172,253	244,919	94,500	102,527	93,606	95,056	77,705	69,724	56,119
Benefits liabilities	8,029,458	7,870,287	7,308,582	6,915,660	6,542,161	6,257,860	6,187,528	5,845,022	5,403,216	4,955,596
Total liabilities	8,225,312	8,042,540	7,553,501	7,010,160	6,644,688	6,351,466	6,282,584	5,922,727	5,472,940	5,011,715
Reserves	260,000	290,000	290,000	502,000	332,000	70,000	40,000	40,000	40,000	40,000
(Unfunded liability) Unappropriated balance	(406,712)	134,164	420,969	133,537	68,941	44,264	(355,508)	(665,158)	(744,422)	(615,352)
Net fund (deficiency) surplus	(146,712)	424,164	710,969	635,537	400,941	114,264	(315,508)	(625,158)	(704,422)	(575,352)
	8,078,600	**8,466,704**	**8,264,470**	**7,645,697**	**7,045,629**	**6,465,730**	**5,967,076**	**5,297,569**	**4,768,518**	**4,436,363**

Statement of Operations and Unappropriated Balance (Unfunded Liability)
For the Year Ended December 31 ($ thousands)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Income										
Premiums	1,019,250	916,378	872,331	880,415	918,832	992,161	1,000,308	985,251	878,187	759,950
Investments	(223,798)	585,716	785,429	858,409	701,857	644,688	533,745	437,525	345,373	356,621
	795,452	1,502,094	1,657,760	1,738,824	1,620,689	1,636,849	1,534,053	1,422,776	1,223,560	1,116,571
Expenses										
Claim costs										
Short-term disability	253,019	308,329	338,276	341,832	298,832	267,482	256,822	303,052	309,528	295,220
Long-term disability	738,273	742,605	653,882	524,182	428,029	425,089	467,479	460,630	463,767	516,464
Survivor benefits	85,885	69,463	55,977	43,665	58,036	56,802	58,907	52,055	44,969	486,450
Health care	237,623	221,349	230,031	264,187	245,523	203,062	178,607	207,981	214,993	160,421
Vocational rehabilitation	130,490	117,330	106,037	77,839	66,929	47,285	68,371	129,384	125,992	59,467
Claim administration	178,985	189,618	135,898	–	–	–	–	–	–	–
Extraordinary adjustments to revalue liabilities*	(414,674)	–	(75,357)	–	–	–	–	–	–	(89,612)
	1,209,601	1,648,694	1,444,744	1,251,705	1,097,349	999,720	1,030,186	1,153,102	1,159,249	1,428,410
Operating and prevention costs										
Operating	278,134	250,775	227,768	205,104	194,037	171,311	161,641	159,730	163,554	158,817
Prevention	40,418	44,067	45,714	47,419	42,626	36,046	32,576	30,680	29,827	27,654
Less: Claim administration costs	(161,825)	(154,637)	(135,898)	–	–	–	–	–	–	–
	156,727	140,205	137,584	252,523	236,663	207,357	194,217	190,410	193,381	186,471
	1,366,328	1,788,899	1,582,328	1,504,228	1,334,012	1,207,077	1,224,403	1,343,512	1,352,630	1,614,881
Surplus (Deficiency) from operations	(570,876)	(286,805)	75,432	234,596	286,677	429,772	309,650	79,264	(129,070)	(498,310)
(Unfunded liability) Unappropriated balance — January 1	134,164	420,969	133,537	68,941	44,264	(355,508)	(665,158)	(744,422)	(615,352)	(117,042)
	(436,712)	134,164	208,969	303,537	330,941	74,264	(355,508)	(665,158)	(744,422)	(615,352)
Appropriation to Research Reserve	30,000	–	–	–	–	(30,000)	–	–	–	–
Appropriation to Future Claims Administration Reserve	–	–	212,000	–	(212,000)	–	–	–	–	–
Appropriation to Latent Occupational Disease Reserve	–	–	–	(150,000)	(50,000)	–	–	–	–	–
Appropriation to Earthquake Disaster Reserve	–	–	–	(20,000)	–	–	–	–	–	–
Unappropriated Balance (Unfunded Liability) — December 31	**(406,712)**	**134,164**	**420,969**	**133,537**	**68,941**	**44,264**	**(355,508)**	**(665,158)**	**(744,422)**	**(615,352)**

*The extraordinary adjustments to revalue liabilities relates to the following items: Bill 49 and mortality assumption changes in 2002, discount rate adjustment and capitalization of claims administration in 2000 and Bill 63, discount rate adjustment, mortality assumption changes and vocational rehabilitation capitalization in 1993.

Note: The above amounts have been restated reflecting the retroactive effects of changes in accounting policies.

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Supplementary financial information										
Capital asset expenditures ($,000s)	17,240	27,480	33,936	55,540	38,240	33,815	12,584	11,043	10,121	17,389
Special reserves costs (included in claim costs)	114,234	120,774	98,946	92,443	81,319	62,211	77,644	79,681	74,723	74,232
Claim costs										
Current year injuries	895,902	990,697	968,515	850,988	831,110	777,807	699,617	711,931	714,033	646,312
Prior years' injuries	313,699	657,997	476,229	400,717	266,239	221,913	330,569	441,171	445,216	782,098
	1,209,601	1,648,694	1,444,744	1,251,705	1,097,349	999,720	1,030,186	1,153,102	1,159,249	1,428,410
Claim costs										
Payments[1]	1,050,432	1,086,991	1,051,822	878,206	813,048	929,388	687,680	711,296	711,629	661,865
Change in benefits liabilities	159,169	561,703	392,922	373,499	284,301	70,332	342,506	441,806	447,620	766,545
	1,209,601	1,648,694	1,444,744	1,251,705	1,097,349	999,720	1,030,186	1,153,102	1,159,249	1,428,410
Statistics										
Claims first reported[2]	159,372	172,103	184,131	178,187	179,582	185,852	189,418	194,280	197,911	195,117
Claims accepted[3]	119,727	130,323	140,020	136,741	144,380	148,144	145,278	147,223	140,785	135,689
Claims disallowed[4]	9,609	10,753	11,211	9,724	8,139	8,358	9,370	8,776	6,994	5,380
Claims rejected[5]	1,798	1,728	2,144	1,889	1,884	1,733	1,538	1,667	1,846	2,360
Claims disallowed as a proportion of claims reported (%)[6]	6.0	6.2	6.1	5.5	4.5	4.5	4.9	4.5	3.5	2.8
Injury rate (number of short-term disability claims per 100 person-years of employment)	3.2	3.6	3.9	4.1	4.3	4.5	4.6	4.8	5.2	5.3
Duration of claim (days paid per claim)										
– in injury year	26.2	26.8	26.2	26.5	25.9	24.0	22.7	23.3	24.3	24.1
– total of all years	49.2	50.8	50.8	52.3	47.5	42.2	40.1	43.3	45.1	43.2
Prevention inspection reports issued	21,736	28,648	31,063	34,264	32,737	35,894	41,548	47,996	42,940	47,340
Prevention worksite activity hours[8]	260,740	277,319	271,951	251,633	276,268	212,121	225,889	221,785	195,175	n/a
Employers registered	171,583	169,650	166,501	164,963	159,036	153,499	149,582	143,599	138,249	113,929
Average premium rate ($)[9]										
– published rate base rate	2.03	2.02	2.31	–	–	–	–	–	–	–
– surplus abatement and transition capping	(0.13)	(0.23)	(0.40)	–	–	–	–	–	–	–
– collection rate	1.90	1.79	1.91	–	–	–	–	–	–	–
– actual final collection rate	1.83	1.78	1.73	1.88	2.01	2.22	2.29	2.29	2.16	2.11
Investment return of portfolio (%)										
– total return (market yield)	(2.3)	(0.8)	5.0	9.8	11.0	13.8	16.6	17.8	(0.5)	18.2
– accounting return (yield on average value of portfolio)	(2.8)	7.5	10.6	12.6	11.3	11.4	10.5	9.7	8.4	9.2
– real return (yield in excess of inflation)[10]	(6.0)	5.6	7.8	10.3	10.3	9.9	8.7	7.3	8.6	7.3
Percent funded (ratio of assets to total liabilities) (%)[11]	98	105	109	109	106	102	95	89	87	89

[1] In 1997, benefit payments include payments of approximately $209 million to widows in respect of retroactive portion of reinstated pensions. Changes in actuarial valuations show a corresponding credit to reflect the reduction of the retroactive liability.

[2] Claims are not necessarily disallowed, rejected, or accepted in the year in which they are reported.

[3] Claims accepted include claims accepted for health-care-only benefits.

[4] Disallowed claims are those that fall within the scope of the *Workers Compensation Act* but are not payable because they are not work-related.

[5] Rejected claims are those that do not fall within the scope of the Act: claims from workers employed in industries not covered under the Act, claims from self-employed workers without optional protection, accounts from physicians submitted in error to the Board.

[6] Reported claims that are not accepted, disallowed, or rejected are either suspended claims or "phantom" claims. Suspended claims are those where the claimant fails to respond to a request for information from the adjudicator, or withdraws the claim. "Phantom" claims are accident reports that are not claims for benefits.

[7] Since 1994, these reports represent the number of inspections conducted while in 1993 and earlier years, multiple inspection reports were often issued after a single inspection.

[8] Worksite activities include Regional Services field officers' staff time spent on inspections, education and consultation with workers and other industry worker services. In 2000 and 1999, the total includes certification hours, which were 26,258 hours and 20,083 hours in 2000 and 1999, respectively; the source of the information is the Prevention Firm File system. Prior to 1999, totals do not include certification hours and were obtained from the Prevention Time and Activity Reporting system (TARS).

[9] The published rate is the rate announced at the time the assessment rates are set. It consists of the base rate reduced by both the pre-2000 subclass surplus abatement and transition capping of rate increases from old to new classification structure. This reduction will largely disappear after 2004. The actual final collection rate differs from the published rate due to changes in payroll distribution by industries over time and refinement of estimates.

[10] Inflation is the change in the All Canada CPI from the preceding October to the current October value, reflecting the indexation of injured worker benefits.

[11] The above amounts have been restated reflecting the retroactive effects of changes in accounting policies.

Ten-year Summary of Financial Statements

Unaudited

Balance Sheet
As at December 31 ($ thousands)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Assets										
Receivables	427,728	405,547	407,531	369,830	404,165	448,336	462,460	446,918	403,694	349,384
Portfolio investments	7,499,966	7,899,120	7,686,438	7,108,502	6,505,445	5,907,252	5,408,592	4,757,109	4,272,205	3,992,148
Capital assets	150,906	162,037	170,501	167,365	136,019	110,142	96,024	93,542	92,619	94,831
	8,078,600	**8,466,704**	**8,264,470**	**7,645,697**	**7,045,629**	**6,465,730**	**5,967,076**	**5,297,569**	**4,768,518**	**4,436,363**
Liabilities and net fund surplus (deficiency)										
Payables and accruals	195,854	172,253	244,919	94,500	102,527	93,606	95,056	77,705	69,724	56,159
Benefits liabilities	8,029,458	7,870,287	7,308,582	6,915,660	6,542,161	6,257,860	6,187,528	5,845,022	5,403,216	4,955,596
Total liabilities	8,225,312	8,042,540	7,553,501	7,010,160	6,644,688	6,351,466	6,282,584	5,922,727	5,472,940	5,011,755
Reserves	260,000	290,000	290,000	502,000	332,000	70,000	40,000	40,000	40,000	40,000
(Unfunded liability) Unappropriated balance	(406,712)	134,164	420,969	133,537	68,941	44,264	(355,508)	(665,158)	(744,422)	(615,352)
Net fund (deficiency) surplus	(146,712)	424,164	710,969	635,537	400,941	114,264	(315,508)	(625,158)	(704,422)	(575,352)
	8,078,600	**8,466,704**	**8,264,470**	**7,645,697**	**7,045,629**	**6,465,730**	**5,967,076**	**5,297,569**	**4,768,518**	**4,436,363**

Statement of Operations and Unappropriated Balance (Unfunded Liability)
For the Year Ended December 31 ($ thousands)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Income										
Premiums	1,019,250	916,378	872,331	880,415	918,832	992,161	1,000,308	985,251	878,187	788,990
Investments	(223,798)	585,716	785,429	858,409	701,857	644,688	533,745	437,525	345,373	356,671
	795,452	1,502,094	1,657,760	1,738,824	1,620,689	1,636,849	1,534,053	1,422,776	1,223,560	1,145,661
Expenses										
Claim costs										
Short-term disability	253,019	308,329	338,276	341,832	298,832	267,482	256,822	303,052	309,528	295,220
Long-term disability	738,273	742,605	653,882	524,182	428,029	425,089	467,479	460,630	463,767	516,464
Survivor benefits	85,885	69,463	55,977	43,665	58,036	56,802	58,907	52,055	44,969	486,450
Health care	237,623	221,349	230,031	264,187	245,523	203,062	178,607	207,981	214,993	160,421
Vocational rehabilitation	130,490	117,330	106,037	77,839	66,929	47,285	68,371	129,384	125,992	59,467
Claim administration	178,985	189,618	135,898	–	–	–	–	–	–	–
Extraordinary adjustments to revalue liabilities[1]	(414,674)	–	(75,357)	–	–	–	–	–	–	(89,612)
	1,209,601	1,648,694	1,444,744	1,251,705	1,097,349	999,720	1,030,186	1,153,102	1,159,249	1,428,410
Operating and prevention costs										
Operating	278,134	250,775	227,768	205,104	194,037	171,311	161,641	159,730	163,564	158,817
Prevention	40,418	44,067	45,714	47,419	42,626	36,046	32,576	30,680	29,827	27,654
Less: Claim administration costs	(161,825)	(154,637)	(135,898)	–	–	–	–	–	–	–
	156,727	140,205	137,584	252,523	236,663	207,357	194,217	190,410	193,381	186,471
	1,366,328	1,788,899	1,582,328	1,504,228	1,334,012	1,207,077	1,224,403	1,343,512	1,352,630	1,614,881
Surplus (Deficiency) from operations	(570,876)	(286,805)	75,432	234,596	286,677	429,772	309,650	79,264	(129,070)	(498,310)
(Unfunded liability) Unappropriated balance — January 1	134,164	420,969	133,537	68,941	44,264	(355,508)	(665,158)	(744,422)	(615,352)	(117,042)
	(436,712)	134,164	208,969	303,537	330,941	74,264	(355,508)	(665,158)	(744,422)	(615,352)
Appropriation to Research Reserve	30,000	–	–	–	–	(30,000)	–	–	–	–
Appropriation to Future Claims Administration Reserve	–	–	212,000	–	(212,000)	–	–	–	–	–
Appropriation to Latent Occupational Disease Reserve	–	–	–	(150,000)	(50,000)	–	–	–	–	–
Appropriation to Earthquake Disaster Reserve	–	–	–	(20,000)	–	–	–	–	–	–
Unappropriated Balance (Unfunded Liability) — December 31	**(406,712)**	**134,164**	**420,969**	**133,537**	**68,941**	**44,264**	**(355,508)**	**(665,158)**	**(744,422)**	**(615,352)**

[1] The extraordinary adjustments to revalue liabilities relates to the following items: Bill 49 and mortality assumption changes in 2002, discount rate adjustment and capitalization of claims administration in 2000 and Bill 63, discount rate adjustment, mortality assumption changes and vocational rehabilitation capitalization in 1993.

Note: The above amounts have been restated reflecting the retroactive effects of changes in accounting policies.

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Supplementary financial information										
Capital asset expenditures ($,000s)	17,240	27,480	33,936	56,540	38,240	33,815	12,584	11,043	10,121	17,389
Special reserves costs (included in claim costs)	114,234	120,774	98,946	92,443	81,319	62,211	77,644	79,681	74,723	74,232
Claim costs										
Current year injuries	895,902	990,697	968,515	850,988	831,110	777,807	699,617	711,931	714,033	646,312
Prior years' injuries	313,699	657,997	476,229	400,717	266,239	221,913	330,569	441,171	445,216	782,098
	1,209,601	1,648,694	1,444,744	1,251,705	1,097,349	999,720	1,030,186	1,153,102	1,159,249	1,428,410
Claim costs										
Payments	1,050,432	1,086,991	1,051,822	878,206	813,048	929,388	687,680	711,296	711,629	661,865
Change in benefits liabilities	159,169	561,703	392,922	373,499	284,301	70,332	342,506	441,806	447,620	766,545
	1,209,601	1,648,694	1,444,744	1,251,705	1,097,349	999,720	1,030,186	1,153,102	1,159,249	1,428,410
Statistics										
Claims first reported	159,372	172,103	184,131	178,187	179,582	185,852	189,418	194,280	197,911	195,117
Claims accepted	119,727	130,323	140,020	136,741	144,380	148,144	145,278	147,223	140,785	135,089
Claims disallowed	9,609	10,753	11,211	9,724	8,139	8,358	9,370	8,776	6,994	5,380
Claims rejected	1,798	1,728	2,144	1,889	1,884	1,733	1,538	1,667	1,846	2,360
Claims disallowed as a proportion of claims reported (%)	6.0	6.2	6.1	5.5	4.5	4.6	4.9	4.5	3.5	2.8
Injury rate (number of short-term disability claims per 100 person-years of employment)	3.2	3.6	3.9	4.1	4.3	4.5	4.6	4.8	5.2	5.3
Duration of claim (days paid per claim)										
— in injury year	26.2	26.8	26.2	26.5	25.9	24.0	22.7	23.3	24.3	24.1
— total of all years	49.2	50.8	50.8	52.3	47.5	42.2	40.1	43.4	46.1	43.2
Prevention inspection reports issued	21,736	28,648	31,063	34,264	32,737	35,894	41,548	47,986	42,930	47,340
Prevention worksite activity hours	260,740	277,319	271,951	251,633	276,268	212,121	225,889	221,785	196,176	n/a
Employers registered	171,583	169,650	166,501	164,963	159,036	153,499	149,582	143,599	138,249	113,929
Average premium rate ($)										
— published rate										
base rate	2.03	2.02	2.31							
surplus abatement and transition capping	(0.13)	(0.23)	(0.40)							
collection rate	1.90	1.79	1.91							
— actual final collection rate	1.83	1.78	1.73	1.88	2.01	2.22	2.29	2.29	2.16	2.11
Investment return of portfolio (%)										
total return (market yield)	(2.3)	(0.8)	5.0	9.8	11.0	13.8	16.6	17.8	(0.5)	18.2
— accounting return (yield on average value of portfolio)	(2.8)	7.5	10.6	12.6	11.3	11.4	10.5	9.7	8.3	9.2
— real return (yield in excess of inflation)	(6.0)	5.6	7.8	10.3	10.3	9.9	8.7	7.3	8.6	7.4
Percent funded (ratio of assets to total liabilities) (%)	98	105	109	109	106	102	95	89	87	89

In 1997, benefit payments include payments of approximately $209 million to widows in respect of retroactive portion of reinstated pensions. Changes in actuarial valuations show a corresponding credit to reflect the reduction of the retroactive liability.

Claims are not necessarily disallowed, rejected, or accepted in the year in which they are reported.

Claims accepted include claims accepted for health-care-only benefits.

Disallowed claims are those that fall within the scope of the *Workers Compensation Act* but are not payable because they are not work related.

Rejected claims are those that do not fall within the scope of the Act: claims from workers employed in industries not covered under the Act; claims from self-employed workers without optional protection; accounts from physicians submitted in error to the Board.

Reported claims that are not accepted, disallowed, or rejected are either suspended claims or "phantom" claims. Suspended claims are those where the claimant fails to respond to a request for information from the adjudicator, or withdraws the claim. "Phantom" claims are accident reports that are not claims for benefits.

Since 1994, these reports represent the number of inspections conducted while in 1993 and earlier years, multiple inspection reports were often issued after a single inspection.

Worksite activities include Regional Services field officers' staff time spent on inspections, education and consultation with workers and other industry worker services. In 2000 and 1999, the total includes certification hours, which were 26,258 hours and 20,083 hours in 2000 and 1999, respectively; the source of the information is the Prevention Firm File system. Prior to 1999, totals do not include certification hours and were obtained from the Prevention Time and Activity Reporting system (TARS).

The published rate is the rate announced at the time the assessment rates are set. It consists of the base rate reduced by both the pre-2000 subclass surplus abatement and transition cappers of rate increases from old to new classification structure. This reduction will largely disappear after 2004. The actual final collection rate differs from the published rate due to changes in payroll distribution by industries over time and refinement of estimates.

Inflation is the change in the All Canada CPI from the preceding October to the current October value, reflecting the indexation of injured worker benefits.

The above amounts have been restated reflecting the retroactive effects of changes in accounting policies.

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For an electronic copy of the *Workers' Compensation Board of B.C. 2002 Annual Report*, visit our web site at www.worksafebc.com.

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